



**A Study Measuring the Relationship between Informal Sector  
Entrepreneurial Activity and Firm Performance**

**By**

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## DECLARATION

I, **Tinashe Robson Napwanya**, hereby declare that the work in this dissertation is my original work, except where otherwise stated. This work has not been submitted to any other institution, or to obtain any other degree. All sources consulted for this study have been acknowledged, and clearly referenced.

Signature



Date..... 09 -04 - 2019

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## **DEDICATION**

I dedicate this study to my mother, Mrs. Dorothy, C. Napwanya, for her love and support.

## **ABSTRACT**

The informal sector, which is one of the major drivers of the country's economy is not performing to its full potential (Webb, Burton, Tihanyi and Ireland 2013; Lekhanya 2015). Entrepreneurship, currently the major segment of the informal sector is not flourishing as envisaged. This study sought to explore informal sector entrepreneurial activities/ business ownership with the hope of recommending ways in which the sector can be enhanced. The study investigated whether culture of entrepreneurship, access to finance, entrepreneurial education/skills and government support predict firm performance (financial and subjective).

The study adopted a quantitative approach. Data was collected from a purposive sample by means of a self-administered questionnaire and was analysed through Pearson correlation and simple linear regression (SLR). The findings of this study after data analyses highlighted key areas that require intervention.

The study found that the adoption of an entrepreneurship culture, and entrepreneurial education and skills, significantly predicts the firm's financial and subjective performance. Furthermore, it was found that government and incubation support predict a firm's financial performance. However, it was also established that government and incubation support had no unique contribution towards non-financial performance of the firm. The study further established that access to finance has no unique contribution towards financial and non-financial performance of the firm.

With the above findings, if entrepreneurs are to flourish, all societal facets have roles to play to improve the entrepreneurial environment. Firm owners/ managers are advised to pursue entrepreneurial/ business education for them to effectively manage their firms. Moreover, the government and financial institutions should work together in improving financial options for small, micro and medium enterprises (SMMEs). For the South African government to improve entrepreneurial activities it should effectively disseminate information about its programmes to the public to ensure that both informal and formal entrepreneurs are well informed.

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# CHAPTER 1

## INTRODUCTION TO RESEARCH PROBLEM

### 1.1 INTRODUCTION

According to Webb, Bruton, Tihanyi and Ireland (2013), the informal sector is one of the primary drivers of a country's economy. Such a sector can lower unemployment, reduce poverty and close the income inequality gap of a nation - contributing to the attainment of developmental goals (African Development Bank 2013)

The majority of participants in the informal sector are small, micro and medium enterprises (SMMEs) owners or necessity entrepreneurs (Serviere 2010). These individuals establish SMMEs out of necessity. They are driven to start their firms by unfavourable economic conditions like unemployment, and the contraction of the formal sector (Herrington, Kew and Kew 2010; Scarborough 2011:23)

Though there are millions of necessity-oriented firms in South Africa, these firms have been shown to contribute marginally to job creation (Lekhanya 2015). It is believed less than 3% of necessity orientated firms create six or more jobs (Herrington *et al.* 2010:44) thereby casting doubts to the notion that the informal sector has capabilities to significantly contribute to job creation and economic growth.



According to the Global Entrepreneurship Monitor (GEM) report (2017), South Africa has a low level of entrepreneurial activity (as measured in the wealth created by an enterprise) and is lagging behind other developing countries when it comes to promoting entrepreneurial initiatives (Herrington *et al.* 2010). A country's level of entrepreneurial activity can be summed up to the role firms contribute to the overall economy of a nation.

If entrepreneurs are to flourish in South Africa, entrepreneurial activities in the informal sector should be investigated. It is only after such investigations that viable recommendations can be made particularly on how informal entrepreneurial activities can be enhanced to contribute to the overall economic development (Thai and Turkina 2014). This study sought to investigate informal entrepreneurial activities in the Durban, South Africa. This study investigated whether an entrepreneurial culture, entrepreneurial education and skills, government and incubation support as well as access to finance predict firm performance. Firm performance in the context of this study is categorised into financial (objective) and non-financial (subjective) performance.

This chapter outlined the background, problem statement, literature review, aims and objectives of this study, and the research methodology together with data analysis tools, ethical considerations, and the delimitations of the study.

The next section presents the background of the study.

## **1.2 BACKGROUND**

South Africa like any other developing nation is believed to have its share of socio-economic problems (Ngek and Smit 2013). The South African economy has a high unemployment rate, high levels of income inequality, high crime rates, extreme poverty conditions and low living standards (Ngek and Smit 2013). These unfavourable socioeconomic conditions within South Africa have led many individuals to engage in informal sector activities (Bhatti, Memon, Shah and Shaikh 2012:62; Gërkhani 2014)

Matsebula (1996) defined the informal sector as small-scale units engaged in the production and distribution of goods and services with the primary objective of generating employment and income to their participants notwithstanding the constraints on the capital, both physical and human and know how. The informal sector is that part of the economy that is neither taxed nor monitored or controlled by the government (Business Dictionary 2015).

Serviere (2010) highlights that people in countries with an economically challenged and socially marginalised environment are forced to make venture creation decisions in its self-employment form. In other words, they are driven to venture into necessity entrepreneurship. Lekhanya (2015:64)

disclosed a relationship between the formal economy and the informal economy - whenever the formal sector contracts, individuals become more involved in informal sector activities for lack of alternative ways of earning a living.

Necessity entrepreneurs are part of our everyday life. They are the people who operate vending outlets, barbershops, hair salons, general dealers, cafés, tuck-shops, bottle stores, hardware stores, electronic repair outlets, transport activities, car repair shops, shoe repairers, homemade beer brewers, brick makers, builders, tailors, carpenters, and more (Ndabeni and Rogerson 2005:130; Nagalingappa and Neetha 2013:61).

The International Labour Organization (2015) revealed that informal business activities comprise half to three-quarters of all non-agriculture employment in developing countries. In South Africa, informal sector activities are deemed to be twice as large in numbers as activities in the formal economy (Herrington *et al.* 2010:11).

Though, in most developed countries informal businesses are marginal in their contribution towards employment creation and a country's gross domestic product (Webb *et al.* 2013), in South African they are critical to the livelihood and survival of millions of people (Herrington *et al.* 2010:13). The South African government and its private partners have initiatives like

economic empowerment and sustainability programs aimed at improving entrepreneurial activities among the marginalised and the disadvantaged, but still, unemployment and economic growth remain huge issues (Herrington et al. 2010:91; Makhoba 2010).

The next section presents the problem statement.

### **1.3 PROBLEM STATEMENT**

This study explored informal entrepreneurial activity within the Durban Metropolitan area. Entrepreneurial momentum is considered to be an essential mechanism for economic development (Herrington *et al.* 2010:7).

Though entrepreneurship is highlighted to be vital to the well-being of an economy, most entrepreneurial firms have performance issues (Hutchinson 2014; Lekhanya 2015). Small, Micro and Medium Enterprises (SMMEs) in South Africa are believed to have a failure rate of between 70% - 80%; and in the informal sector, the level of entrepreneurship and growth is significantly low (The Economic Development and Growth in Ethekewini publication – The EDGE 2013). As long as no or little action is taken to promote the development, growth and sustainability of entrepreneurial ventures, the capabilities of entrepreneurs will never materialise. This raises concerns on what needs to be done for entrepreneurial activities to flourish

in the informal economy or how exactly can informal business owners/managers enhance their firm's performance.

The success/ failure (performance) of entrepreneurs or entrepreneurial firms lies in a host of factors from personal competencies to government support (Azim 2013:15). Thai and Turkina (2014) highlighted that the levels of entrepreneurship of a country are determined by economic conditions, culture, institutional, technological advancements and the level of education. Herrington *et al.* (2010:15) point South Africa's low-level entrepreneurial activity to poor academic and professional skills, social entrepreneurial factors that do not support entrepreneurship as a career path of choice, lack of access to finances, and a burdensome regulatory environment. The African Development Bank Group (2013) outlines that besides poverty and social issues, informal sector entrepreneurship prevalence is affected by three primary institution areas - taxation, regulation, and property rights. High taxes, complicated fiscal processes, and lengthy registration requirements hinder the formalisation of informal operators.

For this study, entrepreneurial culture, access to finance, government/incubator support, and entrepreneurial education/ skills were factors of concern. Numerous studies have investigated the above factors in relation to firm performance (e.g. Makhoba 2010; Lekhanya 2015;

Nagalingappa and Neetha 2013), but very few scholars have examined the factors with focus on informal sector businesses. Moreover, very few researchers have investigated the impact of the factors on objective and subjective performance, many have conducted on the impact on performance in general.

The next section is the literature review.

## **1.4 LITERATURE REVIEW**

This section provides an overview of key elements of this study.

### **1.4.1 Definition: Informal sector entrepreneurship**

The informal sector is defined as that part of the economy that is neither taxed nor monitored or controlled by the government (Business dictionary 2015). Whereas, entrepreneurship is the dynamic process of creating incremental wealth by individuals who assume the significant risks regarding equity, time, and career commitment or provide value for some product or service (Hisrich, Peters and Shepherd 2010). In other words, entrepreneurship is the act of being an entrepreneur. An entrepreneur is an individual who identifies a customer's need and creates a business to produce goods and services to satisfy that need in a profitable way (Nieuwenhuizen 2013:3).

For this study, entrepreneurship in the informal sector will consider Williams and Nadin (2010:363) definition of informal entrepreneurship. The definition state that, “Individuals actively engaged in starting a business or is the owner /manager of a business who participates in paid production and or sale of goods and services that are legitimate in all respect. This is besides the fact they are unregistered by or hidden from the state for tax and or benefit purposes.”

#### **1.4.2 The Informal Sector, Entrepreneurship and the Economy**

Informal sector entrepreneurship occupies a broad place in the overall economy. The African Development Bank Group (2013) outlines that the informal sector fosters economic growth and create jobs in an economy. Moreover, Seveire (2010) posit that activities in the informal sector are a function of the country’s economic and socio-political forces. In most African economies the informal sector’s prominence stems from the opportunities it offers the most vulnerable populations, and in some instances, the informal sector can be viewed to be a by-product of formal employers who reduce production costs by sub-contracting to the informal economy (Williams and Youssef 2013:3)

Entrepreneurs are essential for any economy (Longenecker, Petty, Palich and Hoy 2012; Thai and Turkina 2014). Entrepreneurs are the principal agents of production in the economy; they ensure equilibrium in the

economic system (Thai and Turkina 2014). Longenecker *et al.* (2012) postulate that the act of establishing a successful enterprise births a system that benefits many people - when a firm is profitable: it will grow entailing employment creation, the payment of taxes, and the disadvantaged and the community benefit from social responsibility initiatives.

### **1.4.3 Types of entrepreneurs**

There are three categories in which entrepreneurs can be classified: necessity, opportunity and serial entrepreneurs (Scarborough 2011; Pace 2015). Necessity entrepreneurs are people pushed into informal entrepreneurship because other options for work are absent or unsatisfactory (Scarborough 2011). Opportunity entrepreneurs are individuals who spot opportunities in a market and establish businesses to take advantage of those opportunities (Herrington *et al.* 2010:25; Scarborough 2011). Entrepreneurs who locate opportunities and create a chain of companies to take advantage of those opportunities are termed serial entrepreneurs (Pace 2015). Usually, opportunity entrepreneurs become serial entrepreneurs.

The informal sector is believed to be created by survival strategies of individuals and families in economic environments where learning opportunities are limited (Serviere 2010). Meaning, informal entrepreneurship is generally viewed as from involuntary, reluctant or



survivalist forces (Ojo, Nwanko and Gbadamosi 2013). Williams and Youssef (2013) describe the informal sector as an absorber of surplus labour for those excluded from the formal labour market.

To many scholars the credibility of the belief that necessity drives the informal sector is debatable. Williams and Nadin (2013) point out that though necessity-driven entrepreneurs are deemed to dominate informal entrepreneurship, one should recognise that necessity entrepreneurs co-exist with opportunity entrepreneurs in the informal sector.

Williams and Youssef (2013) together with Williams and Nadin (2012) concur that it is a common occurrence for people to voluntarily leave their jobs and adopt informal entrepreneurship to achieve personal goals – set careers on a new path, transform work identity or to reveal new self. In line with that, Ojo *et al.* (2013) outline that informal entrepreneurship is a spin-off from rational behaviour entrepreneurs who desire to elude state rules and regulations. Moreover, a study by Ojo *et al.* (2013) revealed that though one can be driven by necessity to establish a business; one can develop a long-term commitment to their business and end up being opportunity driven.

#### **1.4.4 Determinants of Entrepreneurship**

Many factors are highlighted to determine entrepreneurship/ entrepreneurial activity. This study's elements of concern are the culture of entrepreneurship, access to finance, government and incubator support and entrepreneurial education/ skills.

##### **1.4.4.1 Culture of Entrepreneurship**

The Collins Dictionary (2017) defines culture as the total of the inherited ideas, beliefs, values, and knowledge which constitute the shared bases of social action. A culture of entrepreneurship is one in which a positive social attitude towards personal effort is widespread, enabling and supporting to entrepreneurial activities (Makhoba 2010). An entrepreneurial culture is indicated by attitudes and values which foster autonomy, risk-taking, creativity, courageousness, and sense of responsibility (Moodley 2003; Herrington *et al.* 2010; Makhoba 2010).

An entrepreneurial culture is a necessity for entrepreneurship to take root. A society/ business may have potential entrepreneurs, but they only become entrepreneurial if that society/ business has a culture that supports innovative and initiative acts (Odora 2017). Some creations and improvements in firm's products and business methods are a reflection of an entrepreneurial culture (Cornwall 2011; Kotter 2011).

The culture of entrepreneurship evolves through one's upbringing, socialisation and professional experiences (Chakraborty, Thompson and Yehoue 2016). That is, entrepreneurial culture is/ can be rooted in society through family, education, existing businesses and national/ local leaders' influences.

#### **1.4.4.2 Access to finance**

Access to finance for small, micro and medium enterprises (SMMEs) is one of the leading obstacles to their growth and survival, and access problems prevent the creation of new firms (Eurostat 2012; Lekhanya 2015). Selvaraj and Balajikumar (2015) highlight that finance is an essential input for any industry, and for a small firm the need for funding is very crucial due to the small business' limited resources.

Kamau and Ngugi (2014:54) outline that globally there is limited access to finances despite the existence of financial institutions. Financial institutions are believed to have stringent conditions in place for SMMEs (Hutchinson 2014; Lekhanya 2015). Moreover, it is thought improved access to finance by entrepreneurs will enhance the growth of businesses and entrepreneurial activity in general (Kamau and Ngugi 2014).

#### **1.4.4.3 Entrepreneurial education/ skills**

Rigg and O' Dwyer (2012:320) define entrepreneurial education as "learning to recognise and act on opportunities, and interacting socially to initiate,

organise and manage ventures”. Lekhanya (2015) specify that entrepreneurship education deals with encouraging certain enterprising behaviours, skills and attributes associated with self-reliance.

Nkosi, Bounds, Thomas and Goldman (2015) list marketing, financial, administration, purchasing and legal knowledge as essential skills necessary for business establishment and survival. Longenecker *et al.* (2012) add innovation, pro-activeness, achievement orientation, willingness to take risks and commitment to others as essential attributes for business success that can come with entrepreneurial education.

#### **1.4.4.4 Government and Incubator Support**

The SBP Alert (2013) highlight government support as the primary determinant of entrepreneurship in a country. A country’s entrepreneurial environment is centred on government programmes and initiatives (SBP Alert 2013; Hutchinson 2014). All the factors which hinder or promote entrepreneurship to a large extent hinge on the government’s financial and non-financial support services.

The government’s strides in providing finances, entrepreneurial education, business incubator services, networking organisations and mentoring/coaching mechanisms determine the entrepreneurial environment and entrepreneurial activity of a country (Hutchinson 2014). The government’s role/ approach in supporting firms and in helping firms get the right support

is the heart of entrepreneurial activity (Otache and Mahmood 2015). The SBP Alert (2013) advocates for better government regulations, policies and programmes that are conducive to entrepreneurship for entrepreneurial activities to thrive.

#### **1.4.5 Business (Firm) performance**

Firm performance is “the operational ability of a firm to satisfy the desires of its owner(s)” and is a subset of the overall concept of organisational effectiveness (Zulkiffli 2014:371). A firm’s performance must be assessed to measure its accomplishments or to ascertain if a firm is succeeding/failing (Zulkiffli and Perera 2011). Performance to a firm could regard to profitability; market share; growth; effectiveness or overall - all the listed (Otache and Mahmood 2015).

A firm’s performance can be measured using objective measures and subjective measures (Zulkiffilli and Perera 2011; Gillikin 2016). Focusing on financial indicators from a firm’s absolute financial records (actual returns; gross revenue; return on assets and return on capital) to ascertain its performance constitutes measuring performance objectively. Whereas, focusing on overall performance, thus, rating a firm against competition/ industry (assessing employee turnover, market share, product quality, and customer satisfaction) is subjectively measuring performance (Zulkiffli 2014).

According to Zulkiffli and Perera (2011), many studies which assess business performance have been shown to prefer subjective measures. Obtaining objective financial data is believed to be demanding – small business owners elude revealing their financial performance to the public, the accuracy of financial information is questionable as managers usually manipulate financial data (Zulkiffli 2014), hence, the unpopularity of objective performance measures.

To effectively assess a firm's performance, it is advisable to use a mix of financial (objective) and non-financial (subjective) measures (Gillikin 2016). This study assessed firm performance using both objective and subjective measures.

#### **1.4.5.1 Culture of Entrepreneurship and firm performance**

The culture of entrepreneurship, in general, is outlined as a determinant of entrepreneurship/ entrepreneurial activities (Moodley 2003; Herrington *et al.* 2010; Makhoba 2010; Azim 2013). The above entails that it affects a firm's establishment and performance – success. Niewenhuizen (2013) disclosed that people who are creative, innovate, risk-taking and resilient are found to establish and run successful (better performing) firms, whereas, those who are timid, indifferent and risk-averse usually struggle in business or rarely venture into entrepreneurship.

Cornwall (2011) and Kotter (2011) concur that for a firm to out-think and outpace competition an entrepreneurial culture is a necessity, for it creates/ enables a business to continually grow by adapting to change and by actively pursuing new market opportunities. Furthermore, Kotter (2011) attributes the links between an entrepreneurial culture and organisational growth (strong financial results) to the culture's customer centred focus and adaptability to change. Given this discussion, the study hypothesises that:

H1: A culture of entrepreneurship predict subjective firm performance.

H2: A culture of entrepreneurship predict objective firm performance.

#### **1.4.5.2 Access to finance and firm performance**

Improved access to finance by entrepreneurs is believed to enhance the growth of businesses (Kamau and Ngugi 2014). When firms have access to funding it is presumed that the firms' value-added would increase (Fafchamps and Schndeln 2012); the firms would have a competitive advantage and the capabilities to realise their objectives (Adomako and Danso 2015:2).

Eurostat (2012) outline outside investment and easy access to it as essential growth factors for firms. In developed countries, small businesses which have access to debt finance and business angels (established business people who offer to finance small firms) were found to extensively perform better than their counterparts who neither have access to the two (Eurostat 2012). Considering this discussion, the study hypothesises:

H3: Access to finance for firms predict subjective firm performance.

H4: Access to finance for firms predict objective firm performance.

#### **1.4.5.3 Entrepreneurial education/ skills and firm performance**

In the informal sector, “street smarts” as opposed to entrepreneurial/ business education significantly contribute to enterprise development and operation thereby limiting the performance potential of firms (Nkosi *et al.* 2015). Furthermore, Lekhanya (2015) project that the likely hood of people with tertiary education to found (and run) a successful firm is 4:1 compared to those without a tertiary qualification, since business/ entrepreneurship education is taught only at tertiary levels in the South African education system.

An analysis of a selected informal sector operations in South Africa revealed that the failure and poor performance of many small firms are due to the owners’/ managers’ lack of entrepreneurial education or skills training (Lekhanya 2015). Hutchinson (2014) and Mutanda, De Beer and Myres (2014) outline that to sustain a robust entrepreneurial/ business education and skills are a must-have. Given the above discussion the study hypothesises that:

H5: Entrepreneurial education and skills support for firms predict subjective firm performance.

H6: Entrepreneurial education and skills support for firms predict objective firm performance.



#### **1.4.5.4 Government/ incubator support and business performance**

The government plays a vital role in determining the entrepreneurial environment of a country. The government create a favourable climate for entrepreneurs by providing financial and non-financial support to potential, emerging and established entrepreneurs (Hutchinson 2014). It is the mandate of the government to provide a favourable climate in which entrepreneurs can easily create firms, have incentives to innovate and grow, and access necessary resources at a reasonable cost (The EDGE 2013).

Mbatha (2015) outline that the government's strides in easing financial access, market access and enabling networks, influences the growth of SMMEs. Wei and Lui (2015) delineates government support to contribute to a firms' operational stability, effectiveness and efficiency. Considering this discussion, the study further hypothesises that:

H7: Government and incubator support for firms predict subjective firm performance.

H8: Government and incubator support for firms predict objective firm performance.

### **1.5 RESEARCH AIM**

The aim of this study was to explore informal sector entrepreneurial activities/ business ownership in the Durban Metropolitan area with the hope of recommending ways in which the sector can be enhanced.

## **1.6 RESEARCH OBJECTIVES**

The following are the objectives of this research study

### **Primary objectives:**

- To determine the level of informal sector entrepreneurial activities or informal business ownership/ management within the Durban Metropolitan area.
- To ascertain whether culture of entrepreneurship; access to finance; government and incubator support; and entrepreneurial education and skills predict firm performance (financial and subjective).

### **Secondary objectives:**

- To identify the various types and or forms of informal sector businesses/ entrepreneurial activities within the Durban Metropolitan area
- To identify major challenges existing informal business owners/ managers, face when operating in the Durban Metropolitan Area.
- To identify measures put in place to promote the establishment and growth of entrepreneurial ventures in the Durban Metropolitan area.

## **1.7 RESEARCH METHODOLOGY**

The methodology covers the nature of the study, the study's population and sample, and the study's validity and reliability.

### **1.7.1 Nature of Research**

This study on informal sector entrepreneurial activity within the Durban Metropolitan area adopted a quantitative approach. Cooper and Schindler (2006:216) highlight that quantitative research is there to measure the behaviour, knowledge, opinion or attitude of participants. This study seeks to explore informal sector entrepreneurial activity by outlining who informal traders are, what they do and how they do it. In doing this, data on respondents' demographics, behaviour, knowledge and opinions or attitudes was collected and analysed, entailing a quantitative study.

The data for this study was gathered and collected at a single point in time, making it a cross-sectional study (Sekaran and Bougie 2013:225). A cross-sectional survey was carried to collect the data required for this study. Questionnaires were personally administered by the researcher to selected informal traders at their business sites.

### **1.7.2 Research Method**

#### **1.7.2.1 Population**

A research population is the entire group of people, events or other elements the researcher is willing to investigate (Sekaran and Bougie 2013:230). The research population of this study was made up of informal traders or business owners within the Durban Metropolitan area.

### **1.7.2.2 Sample**

A sample is a selection that represents the population that is going to be examined for research (Sekaran and Bougie 2013). The sample for this study consisted of 152 informal traders who operate at and around the Workshop Shopping Mall in the city of Durban.

Purposive non- probability sampling technique – judgement sampling was used to select the study sample. This researcher believes data from the chosen sample area will paint a close picture of the Durban Metropolitan area compared to other areas. Informal traders who operate at and around the Workshop Shopping mall are a close representation of the study's total population. The Workshop shopping mall is a hub of informal business activity in the Durban Metropolitan area, it is easily accessible, and it offers variety in informal trading (traders vary in operations and characteristics).

### **1.7.3 Hypotheses**

This study evolved through other researchers' work, views and findings of other authors and researchers on entrepreneurial activity and entrepreneurship (Makhoba 2010; Azim 2013; Nagalingappa and Neetha 2013; Lekhanya 2015).

An analysis of informal sector entrepreneurial activity conducted in this study led to the formulation of the following hypotheses:

- H1: A culture of entrepreneurship predict subjective firm performance.

- H2: A culture of entrepreneurship predict objective firm performance.
- H3: Access to finance for firms predict subjective firm performance.
- H4: Access to finance for firms predict objective firm performance.
- H5: Entrepreneurial education and skills support for firms predict subjective firm performance.
- H6: Entrepreneurial education and skills support for firms predict objective firm performance.
- H7: Government and incubator support for firms predict subjective firm performance.
- H8: Government and incubator support for firms predict objective firm performance.

#### **1.7.4 Measuring instrument's: Validity and Reliability**

##### **1.7.4.1 Validity**

An instrument's validity is the level to which it as a measure, measures what it is supposed to measure (Neuman 2011:211). Validity encompasses the extent to which the instrument looks valid (face validity); adequately captures the content being measured (content validity); measures attributes or characteristics that cannot be observed or measured directly (construct validity) and provide findings that correlates with another related measure (predictive validity) (Welman and Kruger 2007).

The measuring instrument used in this study is a questionnaire. The questionnaire was adopted and adapted from previous studies on

entrepreneurial activity/entrepreneurship - (Makhoba 2010; Nagalingappa and Neetha 2013; Lekhanya 2015). A survey was conducted on selected informal sector traders in the Durban Metropolitan area and data on respondent's demographics and opinions on entrepreneurship in the informal sector was gathered.

The questionnaire gathered data under three sections: Section A, B and C. Section A gathered respondent's demographic details (age, gender, level of education... to their weekly income). Section B collected respondent's opinions on entrepreneurship and entrepreneurial activities/ business ownership focusing on four driving elements (culture of entrepreneurship, government and incubator support, access to finance, and entrepreneurial education and skills) with each component having at least five close-ended questions on firm establishment and operation. Lastly, Section C collected data measuring firm performance (both subjective and objective performance).

A pilot study was carried out to ensure the face and content validity of the questionnaire. Questionnaires were distributed to 15 informal sector traders in the Durban metropolitan area who were not part of the study sample. From the pilot study, unclear questions were identified, revised and rectified in preparation for the main study.

The predictive and constructive validity of the questionnaire was assured through the adoption of questions/ elements from previous studies on entrepreneurship and entrepreneurial activity (Makhoba 2010; Lekhanya 2015; Nagalingappa and Neetha 2013). This study was built on the relationship between entrepreneurial activities/ business ownership in the informal sector and the drivers of entrepreneurship (an entrepreneurship culture; government and incubator support; access to finance and entrepreneurial educations/ skills).

#### **1.7.4.2 Reliability**

A measure's reliability is the extent to which it is accurate and consistent (Welman and Kruger 2007). The reliability of this study's questionnaire is assured. The questionnaire's items were adopted and adapted from previous similar research studies (Makhoba 2010; Nagalingappa and Neetha 2013; Lekhanya 2015). Questions in the survey were thoroughly examined and made unambiguous through the pretesting of the data collection instrument before it was used in the main study.

Furthermore, to increase the reliability of the questionnaire, the questionnaire was personally administered to respondents by the researcher thereby limiting variations among respondents. When it came to the type of questions in the questionnaire, single item questions will be avoided. A summary of key questions in the questionnaire is given below.

**Table 1: Summary of key questions**

<b>Research area</b>	<b>Questions</b> (Alternative responses: Strongly agree, agree, neutral, disagree, strongly disagree)
Culture of entrepreneurship	Starting my own business has always been my dream. Growing up I had a family member or close family friend who had their own business.
Government and incubator support	I have a good understanding of the services offered by the government in assisting small businesses. Government/ municipality controls (taxes, regulations, etc.) limit business operations in this area.
Access to finance	Informal businesses are not getting enough financial support. If I could get funding my business would expand.
Entrepreneurial skills and education	Business knowledge and skills are crucial to the survival and growth of informal businesses. If only I could get an opportunity to attend business training programmes my business will flourish
	<b>Questions</b> (Alternative responses: weaker 1 2 3 4 5 Stronger)
Firm performance (objective)	Mark with an X the number that best describes how your firm performs compared to those in the informal sector on. <ul style="list-style-type: none"> <li>• Revenue</li> <li>• Income</li> </ul>
Firm Performance (subjective)	Mark with an X the number that best describes how your firm performs compared to the industry average on <ul style="list-style-type: none"> <li>• Market share</li> <li>• Product quality</li> </ul>

## 1.8 DATA ANALYSES

Singh (2006:24) outlines that collected data/ raw data is meaningless unless specific treatment is given to it. The raw data collected for this study



was made meaningful through primary analyses, descriptive statistical analyses and inferential data analysis. The SPSS programme was used to aid the data analyses process.

### **1.8.1 Primary Analyses**

Data was presented in three sections: tables, graphs and explanations. A combination of bar charts, pie charts and histograms are used to present data.

### **1.8.2 Descriptive statistical analyses**

Descriptive statistics are used for summarising or describing a set of data (Welman and Kruger 2007). The descriptive statistics used in this study are frequencies. Frequencies were used to determine how often respondents make a specific response to a particular question, thereby allowing results to be analysed and conclusions to be drawn.

### **1.8.3 Inferential Data Analyses**

Inferential statistics are used to make inferences from the chosen sample to a more extensive population (Welman and Kruger 2007). In this study, inferential statistics were used to measure inferential statements about the population and to ascertain the statistical significances of findings. In other words, inferential data analyses were useful in hypothesis testing.

Pearson correlation and simple linear regression (SLR) analysis were undertaken to test whether any statistically significant relationships exist between variables of this study.

### **1.9 ETHICAL CONSIDERATION**

According to Cooper and Schindler (2006), ethics are principles and standards that help researchers to uphold the values and standards of knowledge construction. To meet scientific enquiry standards, the following measures were taken:

- Informed consent to conduct the study was sought from the D.U.T faculty research community and was granted. Furthermore, respondents also gave consent.
- The full study, contents of the questionnaire and the study's benefits were explained to the respondents.
- Participation in this study was voluntary and participants had an option to withdraw from the study at any point in time.
- The privacy of participants of this study was assured and respondents were treated with respect.
- The anonymity of respondents of this study was maintained during and after the study.
- Results of this study were made available for the benefit of participants once the study was completed.

## **1.10 DELIMITATIONS OF THE STUDY**

This study focused only on informal entrepreneurial activity within the Durban Metropolitan area. Informal traders at and around the Workshop mall were selected as a sample for this study, and though operational factors may differ in the Durban Metropolitan area this sample is deemed to represent the Durban Metropolitan area.

## **1.11 STUDY LAYOUT**

This study was structured as follows:

Chapter 1 - Introduction to Research Problem

Chapter 1 was an introduction and plan of this study. It outlined the research problem of this study, this study's aims and objectives, and the study's hypotheses. Furthermore, the chapter provided brief outlooks of the literature and the methodology of the study.

Chapter 2 - Literature Review

Chapter 2 reviewed information from other scholars on this study's topic - informal entrepreneurship and firm performance. Moreover, information on this study's variables: an entrepreneurial culture, access to finance, government and incubators support, and entrepreneurial education was reviewed and gauged against firm performance.

Chapter 3 - Research Methodology and Design

Chapter 3 was devoted to offering details on the study's population, sample, data collection instrument and how the data collected was to be analysed. Chapter three also argued and justified the research design adopted for this study.

#### Chapter 4 – Findings and Analysis

Chapter four details the aftermath of data collection. Questionnaires were administered, and results are presented, analysed and commented on in the chapter.

#### Chapter 5 – Discussion; Conclusions and Recommendations

The researcher in this chapter summaries and discusses the study's findings, offer recommendations, and highlight gaps in the study.

### **1.12 CONCLUSION**

In this chapter the introduction, background, problem statement, literature review, the study's methodology and proposed data analysis tools were outlined. The next chapter will look at the literature review in detail.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

In the previous chapter (Chapter 1), an introduction to this study was carried out. The research topic, background, problem statement, objectives and brief outlines of the literature review and research methodology were highlighted. In this chapter (Chapter 2), information from other scholars on informal sector entrepreneurial activity and firm performance literature relevant to this study will be reviewed.

#### **2.2 INFORMAL SECTOR ENTREPRENEURSHIP**

##### **2.2.1 Overview of the Informal Sector**

According to Gërkhani (2014), there was once a time where no attention was paid to activities in the informal economy. Due to the nature, small size and capacity, of firms in the informal sector many conceptualised the informal economy as a trending economy that with technology advancements and industrial growth will become obsolete and disappear (SBP Alert 2013). Conversely, nowadays the informal sector represents a significant complement to the formal economy (SBP Alert 2013; Webb, Bruton, Tihanyi and Ireland 2013). Some even further argued that in some nations the informal sector contributes more towards economic growth

rather than the formal economy (Ojo, Nwanko and Gbadamosi 2013; Mbatha 2015).

According to Nkosi *et al.* (2015:1), the informal sector is recognised globally as the engine for growth and societal development. This sector's significance in supplying jobs, alleviating poverty and accelerating social progress had earned it recognition in the overall economy (Ojo *et al.* 2013; Alemu 2015; Nkosi *et al.* 2015;). In both developed and developing countries SMMEs are posited to be the largest employer (Rankumise 2017).

In developing countries, the informal sector is believed to provide about two-thirds work of non-agricultural employment (International Labour Organisation (ILO) 2017). The Business Environment Specialities Alert (SBP Alert) (2013) outlines that 90% of total jobs in countries like China, India, and Indonesia are generated from Small, Medium and Micro Enterprises (SMMEs). In the United Kingdom, 55.4% of employment opportunities are from small firms (Goliath, Farrington and Saunders 2014). In Sub-Saharan Africa, 66% of the employed are in the informal sector (Jackson 2016; ILO 2017). In Kenya, 80% of total employment and 20% of the nation's Gross domestic product (GDP) emanates from the informal economy, whereas, 55% of the employed in South Africa are believed to be in the informal sector (The EDGE 2013).

The informal sector/economy are those activities where monetary transactions are not declared to the state for tax, social security or labour law purposes but which are legal in all other respects (Williams and Youssef 2013; Business Dictionary 2015). It is from this definition, a characteristic definition that the sector takes up its names; as Gibbs, Mahone Jr and Crump (2014:33) points out that the informal sector is commonly referred to as the "undeclared"; "unregistered"; "shadow economy" or "the black market."

### **2.2.2 Informal Entrepreneurship**

Alemu (2015) outline that the informal sector is deemed to be a breeding ground for the development of industrial skill and entrepreneurship. In support, Ojo *et al.* (2013) highlight that the informal sector presents motivating factors for economic agents in search of opportunities. These economic agents, as outlined by Serviere (2010), are forced to make venture creation decisions in its self-employment form. In other words, the informal sector provides an ideal platform for people to become entrepreneurs/ to venture into entrepreneurship.

An entrepreneur is a factor of production that attracts and coordinates other factors of production (Larry 2015). Longenecker, Petty, Palich, and Hoy (2012) define an entrepreneur as a person who relentlessly pursues an opportunity in either a new or an existing enterprise, to create value while

assuming the risk and reward for his or her effort. Nieuwenhuizen (2013:3) outlines that an entrepreneur is an individual who identifies a customer's need and creates a business to produce goods and services to satisfy that need profitably. Furthermore, defining entrepreneurship as the act of being an entrepreneur.

Entrepreneurship is the process and capacity of an individual to identify, develop and bring the vision to life; with the vision being an innovative idea, an opportunity or just a better way of doing something (Adebayo, Awodun and Ajonbadi 2015). In agreement Mishra and Zachary (2015), specify that entrepreneurship is not merely the process of founding a new venture, but rather a process of value creation and appropriation led by entrepreneurs in an uncertain environment. Moreover, Kumar (2015) elaborates that entrepreneurship involves the willingness to take responsibility and the ability to put mind to a task and see it through from inception to completion. Entrepreneurship is, therefore, neither science nor art but "a practice" with an acknowledged base (Kumar 2015:3).

By integrating, the definitions of the informal sector and that of entrepreneurship, Williams and Nadin (2012:2) defined informal entrepreneurship as "individuals actively engaged in starting a business or is the owner /manager of a business who produce goods and services that are legitimate in all respect besides the fact they are unregistered by or



hidden from the state for tax and/ or benefit purposes". This study recognises and adopts this definition of informal entrepreneurship.

### 2.2.3 Entrepreneurs in the Informal Sector

Entrepreneurs are classified into the following three types: necessity, opportunity and serial entrepreneurs (Scarborough 2011; Gibbs *et al.* 2014; Pace 2015). Table 2.1 presents definitions of these types of entrepreneurs.

**Table 2.1: Types of entrepreneurs**

Type	Definition
Necessity	People who are pushed into informal entrepreneurship because other options for work are absent and unsatisfactory.
Opportunity	Individuals who spot opportunities in a market and establish businesses to take advantage of those opportunities.
Serial	Entrepreneurs who spot opportunities and establish a chain of businesses to take advantage of those opportunities are termed, serial entrepreneurs.

Sources: (Scarborough 2011; Gibbs *et al.* 2014; Pace 2015;)

There is no consensus amongst researchers and academics on which type of entrepreneur dominate the informal sector (Williams and Nadin 2012; Ojo *et al.* 2013; Gibbs *et al.* 2014; Urban and Kongo 2015). Many understand people entering the informal sector as having little other option, whereas,

others argue that people participate in the informal sector by choice (Urban and Kongo 2015).

Ojo *et al.* (2013) posit the informal sector to be created by survival strategies of individuals and families in economic environments where learning opportunities are limited. Entailing to a large extent, the informal sector is based on necessity entrepreneurship. In support of Ojo *et al.* (2013) views, Williams and Nadin (2012) revealed that to the general public informal entrepreneurship is viewed as from involuntary, reluctant or survivalist forces. Williams and Youssef (2013) adding to that notion, describe the informal sector as an absorber of surplus labour for those excluded from the formal labour market.

Though ordinarily informal sector entrepreneurship is believed to be necessity driven (Ojo *et al.* 2013; Urban and Kongo 2015; Rankhumise 2017), several scholars question the credibility of that belief. Williams and Nadin (2013) point out that though necessity-driven entrepreneurs are deemed to dominate informal entrepreneurship, one should recognise that necessity entrepreneurs co-exist with opportunity entrepreneurs in the informal sector. In support, Gibbs *et al.* (2014:35) highlight that of those in the informal sector some participate out of necessity, whereas, the participation of others emanates from opportunity gaps in the informal sector.

In exploring the depth of opportunity entrepreneurship in the informal sector, Williams and Youssef (2013) together with Williams and Nadin (2012) concur that it is a common occurrence for people to voluntarily leave their jobs and adopt informal entrepreneurship to achieve personal goals like setting careers on a new path, transform work identity or to reveal new self. Ojo *et al.* (2013) outline that informal entrepreneurship is a spin-off from rational behaviour from entrepreneurs who desire to elude state rules and regulations. In support, Gibbs *et al.* (2014) highlight that people venture in the informal sector because of excessive bureaucracy and control in the formal sector and to grow one's wealth.

#### **2.2.4 Informal Sector: Necessity – Opportunity Entrepreneurship**

Whenever the informal economy shrinks individuals become more involved in informal sector activities for lack of options of earning a living - necessity (Ojo *et al.* 2013:589; Lekhanya 2015:64). Furthermore, whenever the formal economy expands the direct and indirect demand for goods and services in the informal sector will enlarge in size – opportunity (Ojo *et al.* 2013:589). In a study conducted by Gibbs *et al.* (2014) it was found that in prosperous economies, much of informal entrepreneurs are employed, but in the lower income brackets of that economy (entailing many venture into informal entrepreneurship to complement their salaries).

From a survey conducted in Brazil by Williams and Youssef (2013), it was revealed that less than half of micro-enterprises are necessity driven. According to Ojo *et al.* (2013), though one can be driven by a need to establish an enterprise, one can develop a long-term commitment to their business and end up being opportunity driven. The majority are concurrently necessity and opportunity driven into entrepreneurship. In South Africa, it is believed the rate of necessity entrepreneurship is lower than the rate of opportunity entrepreneurship (Herrington *et al.* 2013:33). With South Africa's high unemployment rate, masses are forced to use entrepreneurship to escape from unemployment and poverty (African Development Bank 2013; The EDGE 2016).

### **2.3 FIRM PERFORMANCE**

The Advanced English dictionary (2015) defines the term performance as the act of doing something successfully. In entrepreneurship research, the term performance is often used interchangeably with the term growth or success (Urban and Kongo 2015). This study adopts Zulkifli (2014:371) definition of firm performance - "the operational ability of a firm to satisfy the desires of its owner(s)". With this definition, a firm's success or failure is defined by its performance over a period of time (Al- Matari, Al-Swidi and Fadzil 2014:26). Where a firm meets its goals, it is succeeding and vice-versa. To ascertain if a firm is succeeding or failing, a firm's performance

must be measured (Velimirović, Velimirović and Stanković 2011; Al- Matari *et al.* 2014).

### **2.3.1 Performance Measurement**

Molefe (2010) highlight that performance measurement monitor and report how well someone/ something is doing. In concurrence, Velimirović *et al.* (2011) outline that performance measurement enables firms to express their success/ failure (by numbers), and, Al-Matari *et al.* (2014) delimitate performance measurement as the process of measuring an action's efficiency and effectiveness.

Velimirović *et al.* (2011:65) state that “if you want to improve something you must measure it” for “when you can measure something, you know something about it.” In support, Al-Matari *et al.* (2014) bring to light that performance measurement is critical for the effective management of any firm as it is impossible to improve processes without measuring outcomes.

Firms worldwide continually measure their performance to gauge performance, direct behaviour, improve processes, enhance productivity, pinpoint problems, implement strategy and improve accountability (Salloum and Cedergren 2012; Al- Matari *et al.* 2014; Urban and Kongo 2015). In measuring firm performance, managers compare (financial or non-financial) values with some planned value or benchmark (Velimirović *et al.* 2011;

Shava and Rungani 2016). Therefore, performance measurement is usually defined as "the process of assessing a firm's performance against pre-determined measures of performance based on key success factors which may include measures of deviation from the norm, tracking part achievements and measure input and output" (Molefe 2014:2).

### **2.3.2 Performance Indicators**

Performance indicators are financial and non-financial (operational) numbers/ ratios that firms use to estimate and fortify how successful they are aiming at established goals/ standards (Velimirović *et al.* 2011). Performance indicators can be categorised into objective and subjective measures of performance (Zulkiffli and Perera 2011; Zulkiffli 2014; Gillikin 2016).

#### **2.3.2.1 Objective measures of performance**

The term objective implies something undistorted by emotion or personal bias (Advanced English dictionary 2015). Objectively measuring performance involves looking at quantified indicators/ financial indicators (Zehir, Can and Karaboga 2015, Shava and Rungani 2016). Viewing performance from the firm's reported financial statements is labelled objectively measuring performance (Al-Matari *et al.* 2014). When measuring performance using objective measures, measurements are grounded on facts rather than on a person's emotions, opinions or feeling.

According to Urban and Kongo (2015), objective measures are the most common form of performance measures firms use across all venture types. Objective or financial measures are reported to be a valid indicator of a firm's profitability and business in general when compared to benchmark rates (Al-Matari *et al.* 2014).

Though, the popularity of financial performance measures, objective performance measures are regarded as "primarily one-dimensional measures, which are biased towards short-term profitability at the expense of long-term growth" (Urban and Kongo 2015:3). Moreover, researchers argue that gaining access to a non-public firm's actual financial statements is an arduous task as many businesses are very reluctant to publicly reveal their actual performance (Zulkiffli and Perera 2011). If objective data is provided, there is a high probability that it would not adequately represent the firms' actual performance as managers usually temper with financial data (Zulkiffli and Perera 2011).

Mbatha (2015) outlines that from financial statements firms analyse cost-effectiveness (profit), productivity, sales/turnover, cost structures and marginal revenues to gauge their performance. Concurring, Barnard, Kritzinger and Kruger (2011) report that sales revenue, profitability, sales growth, cash flow, cost reduction and return on investment are some of the financial aspects firms use most to measure performance.

To measure the financial performance of this study's participants the researcher used the following measures:

**Table 2.2: Objective measures**

Measure	Information
<p><b>Revenue</b> (Sales, Income or Turnover)</p> <p>Revenue = Sales volume * selling price</p>	<ul style="list-style-type: none"> <li>- It is the income generated from the sale of goods or services or any use of a firm's capital/ assets associated with the main operations of a firm before any costs or expenses are deducted.</li> <li>- It is a figure from which costs are subtracted to determine net income.</li> </ul>
<p><b>Net Income</b> (net earnings and net profit)</p> <p><i>Net income = total revenue - (cost of sales + other expenses)</i></p>	<ul style="list-style-type: none"> <li>- It is a firm's total earnings.</li> <li>- The net income figure is found on a firm's income statement.</li> <li>- It is an important measure of a firm's profitability.</li> </ul>
<p><b>Return on Assets (ROA):</b></p> <p>(Return on investment (ROI))</p> $ROA = \frac{\text{net income}}{\text{total assets}}$	<ul style="list-style-type: none"> <li>- It is a useful indicator of how profitable a firm is relative to its total assets.</li> <li>- It gives an idea of how profitable a company can use its assets to generate earnings.</li> <li>- Return on assets is usually represented as a ratio. Sometimes termed Return on investment (ROI).</li> <li>- The Return on Assets figure gives investors an idea of how effectively the firm is converting the money they have invested into net income.</li> <li>- It reflects the degree of efficiency in employing assets to obtain profit.</li> <li>- The higher the Return on Assets, the effective a firm is using its assets to the advantages of owners.</li> </ul>
<p><b>Return on Equity (ROE):</b></p>	<ul style="list-style-type: none"> <li>- It is a measure of a firm's profitability.</li> <li>- It reveals how much profit a company generates with the money that the owners have invested in it.</li> </ul>



<p>ROE = <math>\frac{\text{net income}}{\text{shareholders equity}}</math></p>	<ul style="list-style-type: none"> <li>- Return on equity measures the rewards of ownership and takes alternative financial structures and risk levels in perspective.</li> <li>- Return on equity is useful in comparing the profitability of a firm to that of another firm in the same industry.</li> </ul>
<p><b>Cash flow (CF)</b></p> <p>CF = Net income after taxes + non- cash charges</p>	<ul style="list-style-type: none"> <li>- Cash flow is the cash amount a company generates and uses during a period.</li> <li>- It is an indication of a firm's financial strength.</li> <li>- Cash flow is crucial to every firm for having ample cash in hand ensures that a firm pays in time its employees and creditors.</li> </ul>
<p><b>Total Debt Equity ratio (D/E ratio)</b></p> <p><math>D/E = \frac{\text{Debt}}{\text{equity}}</math></p>	<ul style="list-style-type: none"> <li>- a debt ratio is used to measure a company's financial leverage.</li> <li>- The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.</li> <li>- Calculation: divide a firm's total liabilities by its stockholders' equity.</li> </ul>
<p><b>Long Term Debt to Equity ratio</b></p> <p><math>LD/E = \frac{\text{Long term Debt}}{\text{equity}}</math></p>	<ul style="list-style-type: none"> <li>- The greater a company's leverage, the higher the ratio.</li> <li>- Generally, firms with higher ratios are thought to be riskier because they have more liabilities and less equity</li> <li>- Calculation: divide a firm's long-term debt by the book value of common equity</li> </ul>

Sources: (Mokhtar and Muda 2012; Taghizadeh Khanqah, Akbari Khosroshahi and Ghanavati 2012; Al- matari *et al.* 2014; Business Dictionary 2016; Investopedia 2016; Stockopedia 2016).

### **2.3.2.2 Subjective measures**

Subjective (non-financial) measures are relative performance estimates which are obtainable by comparing a firm's actions to a benchmark (Vij and Bedi 2016). Subjective measures are believed to be effective in examining business performance, as they allow comparison across firms and contexts, such as industry type, time horizons, cultures or economic conditions (Zulkiffli 2014; Vij and Bedi 2016). Zulkiffli and Perera (2011) outline that managers are advised to use general subjective measures for they can reflect more-specific objective measures.

Non- financial measures of performance are famous for their forward-looking aspects and their reflection of shareholders' expectations about a firm's future performance (Al-Matari *et al.* 2014; Ofori, Nyuur and S-Darko 2014). The use of non- financial measures is increasingly being adopted by firms for nowadays, issues like customer satisfaction, customer referral rates, delivery time, waiting time and employee turnover are of the essence if a firm is to remain competitive (Urban and Kongo 2015).

Barnard *et al.* (2011) list product quality, productivity, customer requirements and responsiveness, quality of suppliers, the production process efficiency, innovativeness and employee quality, performance, and satisfaction as favourite non-financial aspects firms gauge to ascertain their performance. To measure the subjective performance of firms targeted for this study the researcher used the following subjective measures:

**Table 2.3: Subjective Measures**

<b>Measure</b>	<b>Information</b>
<p><b>Market share</b></p> <p>Market share =</p> $\frac{\text{total sale}}{\text{industry total sales}}$	<ul style="list-style-type: none"> <li>- Is the percentage of total sales volume in a market captured by a brand; product and firm.</li> <li>- It gives a general idea of the size of a firm in relation to its market and competitors.</li> <li>- The market share figure shows the relative competitiveness of the firm's products or services. Increases in market share allow a firm to achieve greater scale in its operations and improve profitability.</li> </ul>
<p><b>Capacity utilisation</b></p> <p>Capacity utilisation=</p> $\frac{\text{actual level of output}}{\text{maximum level of output}}$	<ul style="list-style-type: none"> <li>- Is the extent or level to which the productive capacity of a firm is being used in the generation of goods and services.</li> <li>- It is a measure of the extent to which the productive capacity of a business is being used.</li> <li>- It measures productive efficiency.</li> <li>- The higher the capacity utilisation the more competitive a firm is, for higher utilisation reduces unit costs.</li> </ul> <p><b>Calculation:</b> divide maximum capacity with the portion being utilised</p>

<p><b>Product quality</b></p>	<ul style="list-style-type: none"> <li>- It is the group of features and characteristics of a saleable good which determine its durability, and which can be controlled by the manufacturer to meet certain basic requirements.</li> <li>- Quality is the ability of a product or service consistently meet or exceed customer requirements or expectations.</li> <li>- Different customers have different expectations, so quality is customer dependent.</li> <li>- When discussing quality, one must consider design, product, and service.</li> <li>- Poor quality leads to loss of business, decreased productivity, and increased costs.</li> </ul>
<p><b>On time delivery of products or services</b></p>	<ul style="list-style-type: none"> <li>- The ability of a firm to meet the requirements of customers and deliver the products/ services to the customer on time.</li> <li>- Delivering products or services on time creates a long-term relationship with customers for continuity in business.</li> <li>- Loss of customer confidence, loss of relationships, loss of profits, delays in cash flows, loss of reputation, inefficiency.</li> </ul>
<p><b>Customer satisfaction</b></p>	<ul style="list-style-type: none"> <li>- The degree of satisfaction provided by the goods or services of a firm as measured by the number of repeat customers.</li> <li>- It measures how products or services supplied by a company meet or surpass a customer's expectation.</li> <li>- It's the best indicator of consumer repurchases intentions and loyalty.</li> <li>- It increases customer lifetime value.</li> <li>- Customer satisfaction-measure customer loyalty, identify unhappy customers, reduce churn, and increases revenue and help you attract new customers.</li> </ul>

	<b>Measuring:</b> ask customers to rate their satisfaction on a scale.
<b>Customer retention</b>	<ul style="list-style-type: none"> <li>- An assessment of the product or service quality provided by a business that measures how loyal its customers are.</li> <li>- Customer retention statistics are typically expressed as a percentage of long-term clients and are important since retained customers spend more, cost less, and make valuable references to new potential customers.</li> </ul>
<b>Employee satisfaction</b>	<ul style="list-style-type: none"> <li>- It is the extent to which employees are happy, contented and fulfilling their duties and needs at work.</li> </ul>
<b>Employee turnover</b>	<ul style="list-style-type: none"> <li>- The number or percentage of workers who leave an organisation and are replaced by new employees.</li> <li>- Measuring turnover helps employers examine reasons for turnover or estimate the cost of hiring new employees.</li> <li>- Turnover occurs when the employment relationship ends.</li> </ul>

Sources: (Saeed 2011; Beard 2014; Boundless 2016; Business dictionary 2016; Investopedia 2016; Mayhew 2016).

**2.4 DETERMINANTS OF ENTREPRENEURSHIP**

Scholars who have assessed the performance of entrepreneurial ventures (both objectively and subjectively) in South Africa concur that entrepreneurial firms are underperforming (The EDGE 2013; Mgeni 2015; Nkosi *et al.* 2015). The rate of entrepreneurship and growth in the informal sector is believed to be very low (The EDGE 2013). Mgeni (2015) outline

that SMMEs are failing to survive and the ones which survive have been shown to have a slow growth rate.

The EDGE (2013) highlight that the failure rate of SMMEs in South Africa is estimated to be between 70% - 80%. Nkosi *et al.* (2015) outline that 80% of South Africa's small firms fail within five years of establishment. On the rate of entrepreneurial activity, South Africa is believed to have a lower than expected entrepreneurial activity (Goliath *et al.* 2014), and when ranked with other developing countries, South Africa is considered to fall in the bottom 15% (The EDGE 2013; Herrington *et al.* 2013).

Scholars have linked the failure and slow growth rate of entrepreneurial ventures to factors which include personal competences, economic conditions, culture, institutional, technological advancements, education, government rules, regulations, and government support (Small 2012; Azim 2013; Herrington *et al.* 2013; Niewenhuizen 2013). In this section literature on entrepreneurship culture, access to finance, entrepreneurial education/skills, and government/ incubator support and how they affect objective and subjective firm performance is presented.

#### **2.4.1 Entrepreneurship Culture**

Culture is the collective programming of the mind that distinguish members of one group or category of people from another (Riahi and Ommri 2013;

Solesvik, Westhead and Matlay 2014; Chakraborty, Thompson and Yehoue 2016). That is, the attributes, values, beliefs, and behaviour (Radipere 2014) which can be learned or acquired by man from one generation to another, from one individual to another, from one group to another as long as one is a member of the society, and it has the ability of distinguishing one group from another (Odora 2017).

Stephan and Uhlaner (2010) argue that culture can be viewed as patterns or repetitions of common behaviours or practised codes of conduct - that structure societal interactions. Attesting the same point, Radipere (2014:143) clarifies that "culture is not a material phenomenon: it does not consist of things, people, behaviours, or emotions but it is rather an organisation of all these things". Further outlining that, a society's culture is deemed to be made up of all one must know or believe in operating in a manner acceptable to its members. Hence, this makes culture just things that people have in mind – people's models of perceiving, relating to and interpreting things (Stephan and Uhlaner 2010; Kunene and Fields 2017).

When it comes to business activity, cultural values differentiate the extent to which a society consider certain entrepreneurial behaviour desirable (Radipere 2014). According to Makhoba (2010), if a positive social attitude towards personal effort is widespread, enabling and supporting to entrepreneurial activities, entrepreneurial culture is said to exist. In an

entrepreneurial culture, people accept the risk of starting and running of firms (Larry 2015); there is a high rate of new firm ownership and established firms' sustainability (Stephan and Uhlaner 2010). An entrepreneurial culture manifest in society through a positive general climate towards innovation, creativity, calculated risk-taking, economic empowerment/ independence, and rewards for individual effort (Makhoba 2010; Miller 2015; Kunene and Fields 2017).

According to Radipere (2014), culture in relation to starting and running firms is best understood through the process in which people integrate their values into thinking and behaviour. To gain valuable insights on entrepreneurship and entrepreneurial culture, "A model of occupation choice" was consulted (Chakraborty *et al.* 2016:2).

### **Model of occupation choice**

The model of occupation choice outline that they are two types of occupations: workers and entrepreneurs; and a person is either a worker or an entrepreneur.

- Workers - work for a guaranteed wage
- Entrepreneurs – engage in risky business activities

It is believed people's skills and subjective biases - acquired through one's upbringing, socialisation, and occupational experience differentiates one's occupation (Chakraborty *et al.* 2016). Makhoba (2010) and Kunene and



Fields (2017) highlight family, education, existing businesses and national/local leaders' influences as the primary drivers of an entrepreneurial culture.

Makhoba (2010) specifies that the decision to become an entrepreneur and start a new venture is influenced by family perceptions on if starting an enterprise is desirable. In concurrence, Chakraborty *et al.* (2016) bring to light that because of bounded rationality, parents prefer their children to choose occupations they value. For instance, a wage worker parent who values security and sees entrepreneurship as too risky will advocate for his/her children to want a worker occupation. Similarly, an entrepreneur will direct his/her children towards an entrepreneur career path. Also, Doepke and Ziliborti (2013) outline that the number of entrepreneurs in society hinges on the extent to which parents invest time and resources to install entrepreneurial characteristics in their children.

Studies show that people are unlikely to start a new venture if peers and family do not approve (Makhoba 2010; Doepke and Ziliborti 2013; Yang and Dane 2015; Chakraborty *et al.* 2016). In explaining why that is so, Yang and Dane (2015) outlined that for most entrepreneurs in the early stages of venture creation, the family is the ultimate decider because of the often much-needed moral and financial support required during venture creation.

Though parental purposive involvement is the most direct occupational choice determinant, there are social influences that exist. According to Gibbs *et al.* (2015), shared experiences by people living in specific areas and regions are important factors to consider about entrepreneurship and an enterprising culture. Small (2012) and Azim (2013) concur that life events can force or attract one to venture into entrepreneurship. Moreover, societal factors which affect family life are deemed to influence the choice of non-traditional career paths, for instance, if a family does not seem to 'fit in' in society or is seen to be different, that family may feel the need to create a new niche for themselves, entrepreneurially (Azim 2013). Studies indicate that entrepreneurs are more likely to come from ethnic, religious or minority groups (Azim 2013).

Furthermore, placing priority on educating the public about entrepreneurship goes a long way in fostering an enterprising culture (Makhoba 2010). Studies outline mentorship to be one of the most effective means of influencing people's views/ beliefs towards a sustainable entrepreneurial career (Rigg and O'Dwyer 2012; Lekhanya 2015). Rigg and O'Dwyer (2012) point out that mentors have been identified as significant for developing entrepreneurs; they provide focused and individualised support to entrepreneurs. Lekhanya (2015) outlined that successful entrepreneurs can be mentors and inspiration to existing and potential entrepreneurs. Moreover, Lekhanya (2015) advocate the need for

prospective and current entrepreneurs to have role models which may be their parents, siblings, relatives, or successful entrepreneurs in their community.

#### **2.4.1.2 Entrepreneurship culture and Firm performance**

In the actual operation of a firm, Radipere (2014) outlines that culture determines the identity of a human group in the same way as personality determines the identity of an individual. In explaining how culture defines the identity of a human group, Cornwall (2011) specify that culture reflects the values an entrepreneur and his employees bring to a firm. Culture helps people understand how one should: treat customers and other employees; act on the job; fit in and succeed within the company.

If managed a firm's culture properly improves the firm's performance (Corritore, Goldberg and Srivastava 2017). Considering that globally the business environment is highly dynamic, unpredictable, and competitive, it is imperative for businesses to possess entrepreneurial behaviours, develop supportive firm structures to survive, gain a competitive advantage and achieve superior performance (Otache and Mahmood 2015:524). An entrepreneurial culture as a product of a business' general culture pushes people to question the status quo of things in an organisation, thereby, opening room for change and improvements. An entrepreneurial culture helps a firm to meet its customers' expectations; define the authenticity of

the firm and is rooted in the firm's commitment to people, business, and inputting continuous effort towards attaining goals (Cornwall 2011).

According to Salloum and Cedergren (2012), a culture that discourages risk-taking and innovation can hinder strides that are essential to firm efficiency and effectiveness. Moreover, for a business to improve its performance, it must adopt a flexible structure, be innovative, proactive, risk tolerant and be competitively aggressive. In a study conducted by Otache and Mahmood (2015), it was found that entrepreneurial activities such as risk-taking, innovativeness, pro-activeness, autonomy, and competitive aggressiveness have a positive relationship with profitability, market share, growth and overall business performance.

In a study conducted by Benitez-Amado, Llorens-Montes and Perez-Arostegui (2010), it was found that a firm's entrepreneurial culture/intrapreneurship is a valuable capability that leads to firm performance. Though, their study (Benitez-Amado *et al.* 2010) was centred on 'information technology-enabled intrapreneurship culture and firm performance' they discovered that an entrepreneurship culture leads to higher sales growth, market share growth, and product and market development. Also, they also revealed that firms that can develop a working environment that supports innovation are those most likely to achieve a

higher number of product and process innovations, thereby increasing those firm's competitiveness.

Some studies have found a positive relationship between entrepreneurial orientation (- the willingness to see and accept opportunities and taking responsibility to affect change) and firm performance (Zehir *et al.* 2015; Cowden, Tang and Bendickson 2016; Rigtering, Eggers, Kraus and Chang 2017). Zehir *et al.* (2015)'s study which links entrepreneurial orientation to firm performance, together with Cowden *et al.* (2016)'s study which explores what happens to high entrepreneurial orientation firms when they mature, found that there is a relationship between entrepreneurial orientation, a differentiation strategy; innovative performance and firm performance.

Entrepreneurial orientation is strongly and positively related to both financial and non – financial performance (Cowden *et al.* 2016). In a study conducted by Rigtering *et al.* (2017), a study which explores how entrepreneurial orientation and strategic planning leads to high firm performance it was also found that a combination of innovativeness and strategic planning activities lead to high performance.

Wernerfelt (1984) and Barney (1986) 's Resource-Based – View (RBV) of the firm outlined in Otache and Mahmood (2015) indicate that original resources which are valued, rare and difficult to duplicate and substitute

are a source of competitive advantage which improves business performance. An entrepreneurial culture under the RBV is considered a valuable resource, which can give a competitive edge over rivals in the marketplace (Otache and Mahmood 2015).

The above literature supports the hypotheses that are to be tested in this study that:

- H1: A culture of entrepreneurship predict subjective firm performance.
- H2: A culture of entrepreneurship predict objective firm performance.

#### **2.4.2 Entrepreneurial education and skills**

Rigg and O' Dwyer (2012: 320) define entrepreneurial education as "learning to recognise and act on opportunities, and interacting socially to initiate, organise and manage ventures". Lekhanya (2015) specify that entrepreneurship education deals with encouraging certain enterprising behaviours, skills, and attributes associated with self-reliance. In the same line as Lekhanya (2015), Paltasingh (2012: 213) outline that entrepreneurial education helps people develop skills and knowledge, which could benefit them in starting, organising and managing their firms. Summing up the capabilities of entrepreneurship education, Adebayo *et al.* (2015) refer to entrepreneurship education as education for sustainable development.

According to Paltasingh (2012), entrepreneurship education has a multi-dimensional approach; to better understand the concept of

entrepreneurship, one should look at the idea and process from different angles – academic, political and socioeconomic angles. Furthermore, the same author revealed that entrepreneurship has been in existence for a very long time, but entrepreneurship education and research are comparatively new constructs which are still in their growth stage.

Lack of entrepreneurial education or training is one of the significant factors affecting entrepreneurship (Makhoba 2010; Lekhanya 2015; Hutchinson 2014). Lekhanya (2015) highlights that in South Africa, one of the significant constraints to small business development and creation is (the owners) lack of education and business skills. In support, Nkosi *et al.* (2015) and Hutchinson (2014) link the high failure rate of SMMEs in the country to insufficient business skills of owners or managers.

According to Lekhanya (2015) for entrepreneurs to succeed they need specific attributes or skills, and many of these qualities or abilities are acquired through entrepreneurial or business education. Nkosi *et al.* (2015) list marketing, financial, administration, purchasing and legal knowledge as essential skills necessary for business survival. Whereas, Longenecker *et al.* (2012) identified innovativeness, pro-activeness, achievement orientation, willingness to take risks and commitment to others as essential attributes for business success that can come with entrepreneurial education. Furthermore, Thongpoon *et al.* (2012) highlight that

entrepreneurial competencies are underlying characteristics which are causally related to superior performance.

According to Leiva, Alegre, and Monge (2014), entrepreneurial education is obtained through entrepreneurial learning. Entrepreneurial learning is “the process by which people acquire, assimilate and organise newly formed knowledge with pre-existing structures and how learning affects entrepreneurial action” (Leiva *et al.* 2014:130). Acquiring, assimilating and organising are highlighted as the key actions of entrepreneurial learning.

Entrepreneurial knowledge can be acquired through formal, experiential, and vicarious acquisition (Jiao *et al.* 2010; Leiva *et al.* 2014). When one obtains entrepreneurial knowledge through formal education, he/she consults books, articles or undergoes training to gain structured management knowledge that can be systematically used in the operation and management of their firms (Jiao *et al.* 2010). Experiential acquisition entails a hands-on approach of accumulating and applying formal, self-learned and social network knowledge in one's business, whereas, under vicarious acquisition, knowledge is gained from observing other people's behaviours or actions and their results regarding social reward or condemnation (Leiva *et al.* 2014).



Assimilation of knowledge refers to how people process; derive meanings and associations; and interpret the information they have acquired (Leiva *et al.* 2014:130). People assimilate information: by extension - through active application of their ideas or concepts in the real world; and or by intention - growing internally. Organising is the linking process of newly acquired and assimilated knowledge with existing knowledge and the use of the two in entrepreneurial activity (Leiva *et al.* 2014:131).

Paltasingh (2012) and Leiva *et al.* (2014) concur that entrepreneurial education/ learning is a lifelong learning process. All the accumulated knowledge that a person has gained throughout his/ her life can contribute to setting up a new firm / operating it (Paltasingh 2012:238). Simple initiatives like exposing individuals to success stories, explaining the underlying rationale and mechanisms of entrepreneurship taps and evolves one's entrepreneurial instincts (Paltasingh 2012). Since, meagre contributions can be obtained from life events when starting/ operating a firm; it is worthwhile to invest in entrepreneurial education (Adebayo *et al.* 2015; Nkosi *et al.* 2015).

Jiménez, Palmero-Cámara, González-Santos, González-Bernal and Jiménez-Eguizabal (2015) outline that having a secondary education increases one's awareness of potential negative repercussions of informal entrepreneurship, but this effect is counteracted by the lack of

entrepreneurial and business skills. This becomes evident that entrepreneurship education is an education for sustainable development (Adebayo *et al.* 2015) and is essential for business survival and growth (Nkosi *et al.* 2015).

In the informal sector, where most participants are believed to be moderately educated (Williams and Nadin 2012). Nkosi *et al.* (2015) revealed that "street smarts" as opposed to entrepreneurial/ business education significantly contribute to enterprise development. Furthermore, Lekhanya (2015) project that the likelihood of people with the tertiary education to finding an enterprise is 4:1 compared to those without a tertiary qualification, since business/ entrepreneurship education is taught only at tertiary levels in our education system.

An analysis of a selected informal sector operations in South Africa revealed that SMME owners/ managers have very little entrepreneurial education or skills training (Lekhanya 2015; Hutchinson 2014; Mutanda *et al.* 2014). Literature shows that two thirds (2/3) of informal sector participants do not keep business records (Lekhanya 2015), very few SMME owners/ managers promote or advertise their products or businesses (Hutchinson 2014); and very few have accounting or financial management skills to sustain their firms (Hutchinson 2014; Mutanda *et al.* 2014). Though the above, Lekhanya (2015) highlights that a significant number of those

who lack entrepreneurial and business skills/ education are willing to be trained or taught.

According to Jiao *et al.* (2010) since entrepreneurs' capabilities (both knowledge and personal) have a positive impact on performance, increases in entrepreneurial learning/ education can lead to increases in entrepreneurial capabilities, and vice versa. In concurrence with Jiao *et al.* (2010), Kunene and Fields (2017) advocate for education and learning systems to be designed in ways that enable learners to acquire adequate knowledge for them to become entrepreneurs. Moreover, Lekhanya (2015) specify that if entrepreneurial education is implemented early in one's life, the field of entrepreneurship's contribution to economic growth can be higher.

#### **2.4.2.2 Entrepreneurial education and firm performance.**

Maritz (2013) and Nkosi *et al.* (2015) outline that a firm cannot operate efficiently and effectively if its managers are unskilled - does not possess entrepreneurial/ business knowledge. Maritz (2013) argue that lack of entrepreneurial education in a manager may lead him/her to drain workplace morale, which leads to high rates of employee turnover. Moreover, unskilled managers are prone to make reckless decisions which may cost the firm (Maritz 2013), whereas, sound entrepreneurial knowledge can enable one to use information at their disposal to manage costs and

income, resulting in sound decisions that increase profitability and satisfy stakeholders (Nkosi *et al.* 2015).

Leiva *et al.* (2014) acknowledge that knowledge is one of the critical resources a firm can possess and use, to gain a competitive advantage and superior performance. In concurrence, Regasa (2014:280) reveals that firm growth is influenced by among other factors the quality of the workforce in a firm.

Regasa (2014) conducted a study on manufacturing firms and found out that, market access has a positive relationship with firm growth – growth in market share, sales, and profitability. Furthermore, in a study conducted by Mgeni (2015) on SMMEs, it was found that there is a definite significant relationship between an entrepreneurial leadership style (a combination of an entrepreneurial orientation and leadership behaviour) and firm performance.

The above literature supports the hypotheses that are to be tested in this research:

- H5: Entrepreneurial education and skills support for firms predict subjective firm performance.
- H6: Entrepreneurial education and skills support for firms predict objective firm performance.

### **2.4.3 Government/ incubator support**

Government support is highlighted as the primary determinant of entrepreneurship in a country (SBP Alert 2013). A country's entrepreneurial environment is centred on government programmes and initiatives (SBP Alert 2013; Hutchinson 2014). All the factors which hinder or promote entrepreneurship, to a large extent, hinge on government support services. The government's strides in providing finances, entrepreneurial education, business incubator services, networking organisations and mentoring/ coaching mechanisms determine the entrepreneurial environment and the entrepreneurial activity of a country (University of Illinois Extension 2016; Hutchinson 2014; Kunene and Fields 2017).

An uncertain regulatory environment is one of the major hindrances of entrepreneurial activities/ business ownership in developing countries (Smallbone, Welter and Pobol 2015). Ojo *et al.* (2013) outline that government regulations in many countries are only repressive and constraining rather than being also enabling, and it is vital for the government to ensure the latter. In South Africa, the government regulatory environment is postulated to add to the high failure rate of entrepreneurship in the country (Kunene and Fields 2017). The SBP Alert (2013) asserts that the regulatory burden is more onerous on small ventures than large firms, and advocates for better regulations if entrepreneurship is to thrive in South Africa.

According to the EGDE (2013), it is the mandate of the government to provide a favourable climate in which entrepreneurs can easily create firms, have incentives to innovate and grow, and access necessary resources at a reasonable cost. Adebayo, Awodun, and Ajonbadi (2015) bring to light that failure by the government to create a favourable climate for entrepreneurship often result in massive unemployment and poverty levels.

The government creates a favourable climate for entrepreneurs by providing financial and non-financial support to potential, emerging, and established entrepreneurs (Hutchinson 2014). The University of Illinois Extension (2016) lists entrepreneurial education, business incubator services, networking organisations, and mentoring/ coaching mechanisms as some of the non-financial support initiatives the state can provide. In South Africa strides are being taken to promote entrepreneurial ventures. The EDGE (2013) outline that policy initiatives such as credit guarantee schemes, entrepreneurship training, business incubation, and technical assistance are available, but are yet to produce desired results.

Hutchinson (2014) assert that government initiatives towards entrepreneurial activities are considered to be of little value to the informal sector, as high levels of difficulty are associated with accessing them. In line with Hutchinson (2014); Ojo *et al.* (2013) postulate that complications

with government regulations/policies or programmes are due to 'political pressures, administrative incompetences and lack of will.

Prior studies institute that the government is biased towards supporting emerging SMMEs, hence, many SMME owners/ managers fail (Webb *et al.* 2013, Hutchinson 2014). In support Makhoba (2010) revealed that many informal sector business owners/ managers are not benefiting from government initiatives be it financially or non-financially. Moreover, Hutchinson (2014) affirm that much of government funds intended for informal sector assistance programmes are misused and sometimes to the extent of not reaching intended beneficiaries.

The South African government recognise and prioritise entrepreneurship as a driver for economic growth and job creation, and it is making headway towards efficiently developing and promoting entrepreneurs. In 2014, South Africa established a standalone ministry, the Ministry of Small Business Development (DSBD), whose mandate is to improve and develop sustainable and competitive entrepreneurs, small businesses and co-operatives, that contribute to job creation and economic growth (Department of Small Business Development - DSBD 2017). In conducting its operations, the Department of Small Business Development works with the Small Enterprise Finance Agency (SEFA) to cater for small firms'

financial needs (SEFA 2017); and the Small Enterprise Development Agency (SEDA) to provide non-financial support (SEDA 2017).

In South Africa, government policies and programmes to assist SMMEs are designed and implemented at local levels since the local government is believed to have a better understanding of informal income ventures, (The EDGE 2013, Webb *et al.* 2013). The Department of Small Business Development through its agencies SEFA and SEDA impact small firms nationwide through coordinating and partnering with various role players, who include other government departments, municipalities, private companies and global partners (DSBD 2017). For international partnerships, the department of small business development usually works in collaboration with the department of trade and industry (DTI).

On a local government level, South Africa's municipalities are doing their part of empowering individuals to be entrepreneurs. The eThekweni municipality which encompasses the Durban Metropolitan Area, the area in which this study is being conducted, has Business support, Tourism and Markets unit which is responsible for SMMEs development and support (The EDGE 2013). The Business support, tourism and markets units has a number of programmes it facilitates to assist SMMEs, these programmes include, the access to finance programme - a plan to empower SMMEs financially and enable them to access funding from financial institutions,



the arts and craft programme – which provide entrepreneurs with technical skills that are key for them to generate income, and the support to enterprise programme - a programme which facilitate skills development, mentorship coaching and support for business enterprises (The EDGE 2013)

Webb *et al.* (2013) point out that, the informal sector is dynamic therefore there is a need for the government to revise its policies regularly. Moreover, scholars propose that government policies should be routinely evaluated to identify how they can be improved on both their impact and participation of beneficiaries (Williams and Nadin 2012; The EDGE 2013). In attempting to improve the effectiveness of government initiatives, Selvaraj and Balajikumar (2015) revealed that business and politics have an inter-acting relationship, therefore, to help entrepreneurs carry out their entrepreneurial activities it is desirable to create economic and political awareness among present-day entrepreneurs. In support Hutchinson (2014) outlined that the government should improve on the limited information and knowledge regarding government services if entrepreneurship is to boom.

A study by Kunene and Fields (2017) which gauged the extent to which the South African government intervene in promoting/ enabling entrepreneurship to reveal a low participation/ intervention rate by government ministries on entrepreneurship. The study showed that very few

ministries have direct policies that call for the support of entrepreneurship and development. Furthermore, a small number of ministries were found to have incubation programmes, mentorship programmes and training programmes.

#### **2.4.3.2 Government support and firm performance**

According to Mbatha (2015) to efficiently combat the failure of SMMEs, headway must be made with government support initiatives. Effective government support initiatives, those that have implementation plans, knowledge and understanding in place, have been shown to contribute towards business financial stability, and success (Mbatha 2015; Wei and Lui 2015). In a study conducted by Mbatha (2015) it was found that the government's strides in easing financial access, market access and enabling networks influences the growth of SMMEs.

In a study conducted by Wei and Lui (2015) in China, it was found that government support positively influences the performance of firms. The government's (vertical and horizontal) support – vertical support in the form of direct research and development (R&D) subsidies and horizontal support in the form of regional innovation policy, were seen to contribute to firms' operational stability, effectiveness and efficiency.

In a study conducted on selected small businesses in Australia, it was found that government assistance helps SMMEs improve performance (Xiang and

Worthington 2013). Receiving government financial assistance was deemed to help SMMEs enhance performance than under conventional financing. The same study also found that firms that were fortunate to receive government assistance were more likely to obtain non-governmental finance in the following year, and companies that had constraints were deemed to perform well or improve their performance within one year of getting assistance.

Xiang and Worthington (2013) found that there was a 3.1% to 3.6% chance, that a firm that benefits from government assistance would become independent in the following year. Furthermore, they report that with government support firms are more likely to improve their incomes, profitability, debt ratios and chances of obtaining finance by between 6.4% - 9.8%, 4.3% - 5.1%, and 2.7% - 3.1%, respectively.

In a study conducted by Das (2017) on a selected urban informal sector segment in India, it was found that though government support is vital for a firm's success, it has one of the least impacts in attracting people to entrepreneurship especially in the informal sector. The above literature supports the hypotheses that are to be tested in this research that:

- H7: Government and incubator support for firms predict subjective firm performance.

- H8: Government and incubator support for firms predict objective firm performance.

#### **2.4.4 Access to finance**

According to Kamau and Ngugi (2014), entrepreneurship and economic growth will take place in situations where economic conditions are most favourable. One of the economic conditions for entrepreneurship growth is the availability of finances. Selvaraj and Balajikumar (2015) specify that finance is an essential input for any industry, and for a small firm, the need for finance is critical due to the small firm's limited resources.

The source of finance of small firms is of two types – internal and external finance (Selvaraj and Balajikumar 2015). Internal finance emanates from the initial capital and reinvested profit whereas external finance comprises of loans and other assistance from institutional and non-institutional sources (Eniola and Entebang 2015). For any firm, internal financing is the first choice and a crucial source of capital. It is an essential part of the development and survival of a company, whereas, external funding is considered the key ingredient for a firm's rapid growth (Eniola and Entebang 2015).

The critical determinant of business start-up, development, and performance for small, micro and medium enterprises (SMMEs) is access

to financing either external or internal (Kamau and Ngugi 2014; Eniola and Entebang 2015; Lekhanya 2015). For many small firms, internal finance insufficiently met their financial needs, thereby creating a need for external funding. This external financing comes in the form of debt financing which is obtainable from two sources, formal and informal sources (Eniola and Entebang 2015). Official sources comprise of institutional sources like banks, whereas informal sources refer to family, friends, and trade credits. Accessing debt funding is not an easy task for SMMEs, and it's an impossible task for informal firms (Thongpoon, Ahmad and Yahya 2012; Kamau and Ngugi 2014; Lekhanya 2015).

Kamau and Ngugi (2014:54) outline that globally there is limited access to finances despite the existence of financial institutions. Lekhanya (2015) concur with Thongpoon *et al.* (2012) that lack of finance is the main obstacle to the growth of small, medium, and micro enterprises (SMMEs). Also, Kamau and Ngugi (2014) highlight that improved access to finance by entrepreneurs will enhance the growth of firms and entrepreneurship.

Informal firms face financial difficulties in conducting their operations, and they are usually supported financially through secondary debt sources - family members, friends, and suppliers (Kamau and Ngugi 2014). Kunene and Fields (2017) outline family as the primary source of funding that supports start-ups or small businesses. Financial institutions and banks are

believed to have stringent conditions in place for informal firms and SMMEs, thus, the SMME problem of funding (Jiao *et al.* 2010; Hutchinson 2014; Kamau and Ngugi 2014; Lekhanya 2015).

For informal sector firms, it is hard and to some impossible to acquire funding from banks and other financial institutions (Hutchinson 2014). Financial institutions offer small loans with short repayment periods, at very high-interest rates and for one to access these credits they require collateral which the majority of informal sector firms lack (Haider and Akhter 2014; Kamau and Ngugi 2014; Lekhanya 2015; Selvaraj and Balajikumar 2015). Furthermore, the low-value income activities small firms engage in, coupled with the lack of skills to manage funds make SMME's high-risk businesses to invest in hence financial institutions shun investing in SMMEs (Kunene and Fields 2017; Rankhumise 2017). Many informal business owners claim that commercial banks discriminate informal firms with restricted financing and their attitude towards lending to them (Small 2012; Haider and Akhter 2014).

The South African government in collaboration with private institutions have establishments in place to assist SMMEs (including those in the informal sector) with funding (Lekhanya 2015). ABSA bank, Khethani business finance, Khula credit guarantees, People's bank and Sizani, were formed primarily to assist small businesses with funding (Lekhanya 2015).

Unfortunately, awareness still lacks on the side of small firms (formal and informal) on where and how they can take advantage of service offers available to them (Hutchinson 2014; Lekhanya 2015).

#### **2.4.4.2 Access to finance and firm performance**

Several scholars concur that access to finance and firm performance are positively correlated (Fafchamps and SchndelIn 2012; Adomako and Danso 2015; Zhou 2015). When firms have access to funding it is presumed that the firms' value-added would increase (Fafchamps and SchndelIn 2012); the firms would have a competitive advantage and the capabilities to realise their objectives (Adomako and Danso 2015:2). Rankumise (2017) posit that access to finance is critical for a firm to succeed in its business transactions.

In a study conducted in Morocco by Fafchamps and SchndelIn (2012); it was found that firms which secure funding from banks mostly invest in physical capital. This act of investing in physical capital, in turn, lead a firm to increase employees' productivity, reduce labour costs and increase the firm's profitability (Fafchamps and SchndelIn 2012). Mirroring Fafchamps and SchndelIn findings, Thanh (2012) reveals that SMMEs which have access to credit avenues are in better positions to utilise productive assets to improve their operations and performances.

According to Adomako and Danso (2015), access to finance can be a source of competitive advantage for a firm. The resource based-view (RBV) on competitive advantage, as outlined by Adomako and Danso (2015), posits that a company can achieve superior growth and performance; and sustained competitive advantage if it poses and control valuable, rare resources and capabilities, and know how to use them. All funds that a firm require to start, operate, grow, and to sustain a competitive advantage are all dependent on the firm's finances. For example, a firm's resources like assets, capabilities, organisational processes, information, and knowledge which can generate a sustainable competitive advantage for a company, all come at a cost (Adomako and Danso 2015).

Zhou (2015) points out that financial constraints have significant influences on firms' performances. A study of select private firms in China revealed that high-interest rates and burdensome collateral requirements by banks negatively affect a firms' annual employment growth rate (Zhou 2015:21). An environment with readily available finances is associated with faster growth for small, micro and medium enterprises (SMMEs); and in such an environment, more firms are deemed to enter and less to exit the business industry (Fatchamps and Schndeln 2012:22).

Adomako and Danso (2015) concur with Thanh *et al.* (2012) that financial constraints limit or hinder the operating capacity and performance of firms.



Adomako and Danso (2015) outline that without adequate access to finance, the driving power of a company and its potential for growth is at risk - a firm will hardly realise its business objectives; particularly those objectives relating to business growth and performance. Thanh *et al.* (2012) highlight a distinction between firms that have access to debt finance, and those that face constraints that hinder them from borrowing. In Vietnam, firms with access to credit were found to experience quicker development and higher profit than the non-borrowing firms. In comparison to non-borrowing companies, firms with access to formal credit were found to have higher revenues ranging between 45.1 percent to 50.7 percent and higher gross profit ranging between 29.5 percent to 37.8 percent (Thanh *et al.* 2012). With the above its evident that access to finance plays a vital role in improving firm performance.

The above literature supports the hypotheses that are to be tested in this research:

- H3: Access to finance for firms predict subjective firm performance.
- H4: Access to finance for firms predict objective firm performance.

## **2.5 CONCLUSION**

In this chapter (Chapter 2) a literature review on informal sector entrepreneurial activities and the relationship between firm performance and determinants of entrepreneurship was conducted. In the next chapter (Chapter 3) the research methodology will be outlined.

## **CHAPTER 3**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 INTRODUCTION**

In this chapter, an analysis of the research methods that were used to collect and analyse data are given. This chapter outline the study's: research type, sampling design, data collection and analysis methods.

#### **3.2 TYPE OF RESEARCH**

According to Kothari (2004) research can be distinguished as either applied research or fundamental research. This study falls under fundamental research.

##### **3.2.1 Fundamental research**

Fundamental research is research done mainly with the intent of improving the understanding of problems that commonly occur in organisational settings and of how these problems can be solved (Welman and Kruger 2007). Fundamental research is mainly concerned with the generalisation and formulation of a theory. Its aim is directed towards finding information that has a broad base of application, information that can be added to the already existing organised body of scientific knowledge (Kothari 2004).

This study explored informal sector entrepreneurial activities, a study area that have been explored by numerous authors (e.g. Makhoba 2010; Nagalingappa and Neetha 2013; Lekhanya 2015). It added, to the already existing body of knowledge, information on the understanding of the informal sector, the problems informal business owners encounter in their operations and recommended how these problems can be solved.

### **3.3 RESEARCH DESIGN**

According to Cooper and Schindler (2001), research design is the collection of all the tools, techniques and procedures that the researcher applies to collect and analyse data for the study. It is a mapping of a strategy for the collection, analysis and reporting of data and findings in a manner that aims to combine relevance to the research purpose with economy in procedure (Singh 2006; Wagner, Kawulich and Garner 2012). The research design covers the nature of the study, method of study, data collection methods, the study's population and sample and the study's validity and reliability aspects. These issues receive attention next.

#### **3.3.1 Nature of study**

The study was quantitative and descriptive in nature.

### **3.3.1.1 Quantitative research**

Quantitative research is research in which the results can be statistically analysed (Welman and Kruger 2007). A quantitative study is based on the measurement of quantity or amount (Kothari 2004). Data on participants' demographics, behaviour, knowledge and opinions or attitudes were collected by the administration of questionnaires with pre-formulated response options. The data was then quantified and statistically analysed to come up with interpretations and recommendations.

### **3.3.1.2 Descriptive research**

Descriptive research refers to an investigation or study designed to give an account of something or to outline the state of affairs as it exists at present (Kaliski 2007; Kothari 2004). Descriptive research is concerned with the current and attempts to determine the status of the phenomenon under investigation. It observes and describe the behaviours of a targeted population, and establish their characteristics (Welman, Kruger and Mitchell 2005:23). This study investigated informal sector entrepreneurial activities in the Durban Metropolitan Area.

Moreover, in descriptive research, the researcher has no control over the variables; he/ she can only report what has happened or what is happening (Kothari 2004). In this study, the researcher had no control, over the study's variables (entrepreneurial activities in the informal sector and the

determinants of entrepreneurship). The researcher gave an account of the situation in the informal economy as it is.

### **3.3.2 Sampling Design**

The sampling design outlines the study's population, sample, and the sampling method.

#### **3.3.2.1 Target Population**

According to Sekaran and Bougie (2013:230), a research population is the entire group of people, events or other elements the researcher is willing to investigate. That is the collection of elements from which information is to be gathered to solve the research problem (Nel, Van Dyk, Haasbroek, Schultz, Sono and Werner 2004).

The research population of this study was made up of informal entrepreneurs within the Durban Metropolitan area, that is, informal traders or business owners who operate in the Durban Metropolitan area. Guided by Williams and Nadin (2010)'s definition on informal entrepreneurship the research population of this study comprise "Individuals actively engaged in starting a business or is the owner /manager of a business, who participates in paid production and sale of goods and services that are legitimate in all respect besides the fact they are unregistered by or hidden from the state

for tax and or benefit purposes, who are operating in the Durban Metropolitan area.”

### **3.3.2.2 Sample**

A study sample is a representative of the target population (Singh 2006). It comprises of certain members selected to stand for the total population (Sekaran and Bougie 2013:241). Singh (2006) outline that the primary aim of a sample is to make the research findings economical and accurate. A sample needs best to represent the target population within the time and cost constraints of the research budget (Kothari 2004).

The researcher to address the study's target population size, costs and time constraints chose a study sample. The sample for this study consisted of 152 informal traders who operated at and around the Workshop Shopping Mall in the city of Durban.

### **3.3.2.3 Sampling technique**

The study sample for this study was selected employing a purposive non-probability sampling technique – judgement sampling.

#### **3.3.2.3.1 Non –probability sampling**

Under a non – probability sample selection method, members in the group/ population do not have a known chance of being selected to be part of the sample (Sekaran and Bougie 2013). They are two main types of non-

probability sampling designs: convenience and purposive sampling. Under convenience sampling, a sample is chosen for ease or because it is easy to access, whereas, under purposive sampling, an element is selected because it is known/deemed to be representative of the total population (Singh 2006:91). In this study purposive sampling was chosen.

The purposive sampling design has two categories: quota sampling and judgement sampling. Quota sampling ensures specific groups are adequately represented in a study through the selection of elements/variables by the researcher (Welman and Kruger 2007). Judgement sampling involves the selection of a group of the population by available information sought (Singh 2006). The researcher would select a sample which he/ she deem would provide vital information on the research topic (Welman and Kruger 2007).

The researcher selected the sample for this study using the judgmental sampling technique. The researcher believed informal sector traders stationed at/ close to the Workshop Shopping Mall mirror informal traders in the Durban Metropolitan area. Informal traders who operate at and around the Workshop Shopping mall differ demographically, trade in different sectors and vary in business size, thereby making them a near representative of the study's total population. The Workshop shopping mall is a hub of informal business activity in the Durban Metropolitan area, it is

easily accessible, and it offers variety in informal trading (traders vary in activities and characteristics) thereby representing all informal traders. Furthermore, the selection of the sample reduced the study's cost and time constraints.

### **3.4 DATA COLLECTION METHOD**

A cross-sectional survey was used as a data collection method for this study. The term cross-sectional survey was derived from combining the properties of a cross-sectional study and a survey. Sekaran and Bougie (2013:106) defined a cross-sectional study as a study that takes only one shot at gathering answers to research questions. Cross-sectional studies take place at a single point in time (Fink and Kosecoff 2006:61). A survey is a primary data collection method by which data is collected from participants through observation, interviews, questionnaires, or schedules (Kothari 2004). A survey is where a population sample is studied (questioned or observed) to determine its characteristics (Kothari 2004). The data for this study was gathered and collected at a single point in time using a questionnaire.

#### **3.4.1 Research instrument**

A questionnaire was used as a data collection instrument for this study. A questionnaire is a pre-formulated set of questions where respondents record their answers, usually within rather strictly defined alternatives



(Sekaran and Bougie 2010:197). It is an instrument designed to elicit information that will be useful for analysis (Babbie 2011:243). A questionnaire is the most widely used technique for obtaining information from subjects for it is relatively economical, ensures respondents' anonymity and ensure that the same questions are asked to respondents (McMillan and Schumacher 2006).

This study's questionnaire was self-administered by the researcher to gather information on respondent's demographics, behaviour, knowledge, and opinions/ attitudes pertaining informal sector entrepreneurial activity. The questionnaire was the instrument of choice for this study because it ensured that all respondents were asked the same series of questions; a rich array of information was gathered economically, in a short period and it guaranteed the anonymity of participants.

Though a questionnaire is the most widely used technique for obtaining research information (McMillan and Schumacher 2006), it has its drawbacks. Respondents may misunderstand questions. Questions in a questionnaire have a huge possibility of being misinterpreted. Usually, the researcher's definition of some concepts/ words differs with respondents' interpretation. Surveys do not allow for the probing and clarification of responses (Neuman 2011). To address these drawbacks of using a questionnaire as a data collection instrument, a pilot study was conducted.

### **3.5 PILOT STUDY**

Kothari (2004) outline that the purpose of a pilot study is to test the conduciveness of a questionnaire, revealing the questionnaire's weaknesses, if they are any. A pilot study is meant for the researcher to test and refine the questionnaire and to disclose any errors or overlooked assumptions which may affect the quality (reliability/ validity) of the instrument/ study (Cooper and Schnindler 2001:399).

The pilot study was a smaller version of the data collection process. Questionnaires were distributed to 15 informal traders in the Durban Metropolitan area (who were not part of the study's sample) in the exact way they were going to be distributed in the main study. The pilot study tested the questionnaires design, content and administration process. No major problems were found with the questionnaire. The pilot study necessitated the simplification of the terminology used in the questionnaire for the convenience of respondents. For instance, the terms; net earnings were changed to the term profit; loan to borrowings, generate returns to make more money .... and firm to business.

### **3.6 QUESTIONNAIRE DESIGN**

The self-administered questionnaire used in this study comprised of three main sections: Section A, B and C. Section A of the questionnaire gathered participant's demographic details and essential business details. It

enquired about: the participant's age, gender, level of education and the business' age, turnover per week and number of employees.

Section B collected participant's opinions/ experiences on entrepreneurship and entrepreneurial activities using a Likert scale. Respondents were asked to indicate the extent to which they agree or disagree to a variety of statements under four fields: culture of entrepreneurship, government and incubator support, access to capital and entrepreneurial education/ skills. Each area had at least five close-ended questions on enterprise establishment and operation.

Section C was made up of questions that measure participants' firm performance. Participants were requested to rate how their firms' objective and subjective performance compare to others in the informal sector and the industry's average.

### **3.7 VALIDITY AND RELIABILITY**

#### **3.7.1 Validity**

Validity refers to the extent to which an instrument measures what we wish to measure (Kothari 2004; Neuman 2011:211). An instrument's validity focuses much on the instruments' data quality; the extent to which the data is precise and sufficient for the research's purpose. Kothari (2004) outline that validity is the extent to which differences found with a measuring instrument reflect exact differences among those being tested.

One can ascertain an instrument's validity by ensuring: content validity; criterion-related validity and construct validity (Kothari 2004). Content validity is the extent to which a measuring instrument provides adequate coverage of the topic under study (Welman and Kruger 2007). If the instrument contains a representative sample of the universe, the content validity is good (Kothari 2004). For this study, a Cronbach alpha coefficient test was conducted to ascertain if the measuring instrument provide adequate coverage of the topic under study. The results of the Cronbach alpha test are shown later below in table 3.

Criterion-related validity refers to the study's ability to predict some outcome or estimate the existence of some current condition (Kothari 2004). Criterion-related validity is a broad term that refers to predictive validity and concurrent validity. A study/ instrument can produce findings which mirror that of prior similar research (Welman and Kruger 2007). According to Kothari (2004), an instrument can achieve this if its: relevant (is a proper measure), free from bias, reliable (stable), and is constructed from readily available information.

Construct validity refers to the extent to which an instrument measures attributes or characteristics that cannot be observed or measured directly (Welman and Kruger 2007). Kothari (2004) outlines that construct validity is the degree to which the finds of an instrument can be accounted for by

the explanatory constructs of a sound theory. To determine the construct validity of a study, a set of other propositions are associated with the results received from using a measurement instrument. If results from a measurement correlate in a predicted way with those of other propositions, it is concluded that there is some construct validity (Kothari 2004).

To ensure the criterion-related and construct validity of the measuring instrument, the study was built on previous reviews/ studies. The questionnaire's questions were adopted from earlier studies on entrepreneurship and entrepreneurial activity- Makhoba (2010); Lekhanya (2015) and Nagalingappa and Neetha (2013). Furthermore, a pilot study was conducted to ensure the study's content and face validity, from the pilot study unclear questions and areas requiring revision were identified and rectified.

### **3.7.2 Reliability**

A measure's reliability is the extent to which it is accurate and consistent (Welman and Kruger 2007). Sekaran and Bougie (2010:161) state that the reliability of a measure indicates the extent to which it is without bias. A measuring instrument is reliable if it provides consistent results (Kothari 2004).

According to Kothari (2004) to ensure an instrument's reliability particular attention should be given to two aspects: stability and equivalence. The stability aspect is concerned with securing consistent results with repeated measurements of the same person and with the same instrument. The degree of confidence is determined by comparing the results of repeated measurements. The equivalence aspect considers how much error may get introduced by different investigators or differences in the study's environment. The equivalence aspect is tested by comparing finds by two investigators on the same events (Kothari 2004).

To ensure reliability the researcher personally administered questionnaires to the study's sample. Questions in the questionnaire were made simple and easy to understand. The questionnaire was made up of close-ended questions to take less of participants' time and reduce boredom/ fatigue when answering it. Moreover, the sample area of this study ensured respondents were from the same operating environment (Kothari 2004).

Furthermore, a reliability test was conducted to test the reliability of the data collection instrument (the questionnaire) that was used in this study. The test (Cronbach Alpha coefficient test) determined reliability by making several measures of responses to the same subject. Reliability coefficients of 0.70 or higher are considered to be "acceptable" (Andrew, Pederson and

McEvoy 2011:202). The test's results for this study's data collection instrument are provided in table 3 below:

**Table 3: Reliability scores for the study**

Scale	No. of items	Alpha coefficient
CE	5	0.70
AF	6	0.71
GIS	6	0.74
EES	5	0.60
OF	8	0.87
SNF	8	0.78

Key: CE (culture of entrepreneurship); AF (access to finance); GIS (government and incubator support); EES (entrepreneurial education/ skills); OF (Objective (financial) measures); and SNF (subjective (non-financial) measures).

The Cronbach Alpha scores for all items presented in the questionnaire (Table 3) reflect that reliability scores for all sections, but one, approximated or exceeded the recommended Cronbach Alpha test value of 0.70. This indicates an acceptable degree of consistent scoring for all sections of the research instrument except for the Entrepreneurial education/ skills (EES) section which with a 0.6 test score value falls a little below standard.

### **3.8 DATA PREPARATION**

Data preparation refers to the process of checking the quality of the data gathered during fieldwork and converting it into an electronic format so that it can be read and manipulated (Nel *et al.* 2004). Collected data was edited and coded to facilitate data analysis. Data editing is the process of examining received raw data to detect errors and omissions and to correct

them when possible (Kothari 2004). It involves a careful revision of the completed questionnaires assuring that the questionnaires were filled entirely and accurately. Data coding refers to the process of assigning numerals or other symbols to answers so that responses can be put into a limited number of categories or classes (Kothari 2004). Data coding is the converting of respondents responds into numbers to enable the statistical analysis of the data.

### **3.9 DATA ANALYSIS**

Collected data/ raw data is meaningless unless specific treatment is given to it (Singh 2006:24). Collected data had to be analysed for it to be meaningful. Data analysis means studying material to determine basic facts or meanings. It involves breaking down existing complex factors into simpler parts and putting the parts together in new arrangements for interpretation (Singh 2006). Data obtained from questionnaires were organised and analysed through primary analyses, descriptive statistical analyses and inferential data analysis with the aid of a Statistical Package for Social Sciences (SPSS) computer package.

#### **3.9.1 Primary Analyses**

Primary data analysis deals with the presentation of data (Welman and Kruger 2007). Data presentation is an essential aspect of data analysis. Data presentation make data or results more illustrative and highlight important findings (Singh 2006). Data was presented in three forms: tables,



graphs and explanations. A combination of bar charts, pie charts and histograms were used to present data and explanations were offered to interpret the presented data.

### **3.9.2 Descriptive statistical analyses**

Descriptive statistics are used to summarise or describe a set of data (Welman and Kruger 2007). Descriptive statistics provide valuable information about the nature of participants (Singh 2006). The descriptive statistics tools used in this study are frequencies. A frequency refers to the number of times that a word or phrase occurs and yields numerical data. Frequencies were used to determine how often respondents make a specific response to a particular question (Welman and Kruger 2007).

### **3.9.3 Inferential Data analyses**

Inferential statistics are used to make inferences from the chosen sample to a more extensive population (Welman and Kruger 2007). In this study, inferential statistics were used to measure inferential statements about the population and to ascertain the statistical significances of findings. Pearson Correlation and simple linear regression (SLR) analyses were used to test whether any statistically significant relationships exist between variables of this study (Kothari 2004). A Pearson Correlation test is one of the most commonly used techniques of exploring relationships between two

variables, it outlines if they are dependent or independent of each other (Singh 2006).

### **3.10 CONCLUSION**

In this chapter an analysis of the research methods that were used by the researcher to collect and analyse data was given. The study's research type, sampling design, data collection and analysis methods used were outlined. The next chapter (Chapter 4) will present the study's findings.

# CHAPTER 4

## FINDINGS AND ANALYSIS

### 4.1 INTRODUCTION

In the previous chapter (research methodology and design) the population was defined; the sample and the sampling method were outlined, and the research design was explained. A questionnaire was constructed and administered to respondents.

This chapter presents the results and findings from 152 questionnaires completed by a selected group of informal traders in Durban. Questionnaires were administered to 152 informal traders. Collected data from respondents was captured and entered into a datasheet for analysis as in Appendix B. Coded results were analysed with the aid of SPSS software.

Data is presented following the outline of the questionnaire, which has three sections:

Section	Contents	Question number
A	Owners' and business' Demographics <ul style="list-style-type: none"><li>• Business Support</li></ul>	1 – 7 8 – 10
B	Entrepreneurial activity factors	11 – 32
C	Performance measures	33 – 48

Data is first presented using descriptive statistics and then inferential statistics.

## 4.2 DESCRIPTIVE STATISTICS

Results are summarised and presented using a table or a graph, and then they are commented on. For analysis purposes results from Likert scale questions in the survey were classified to fall into three classes: agree (stronger), disagree (weaker), and neutral, for instance, strongly agree and agree responses were treated as agreeing on responses.

### 4.2.1 Demographic information

#### Q 1. Gender

Figure 1: Gender

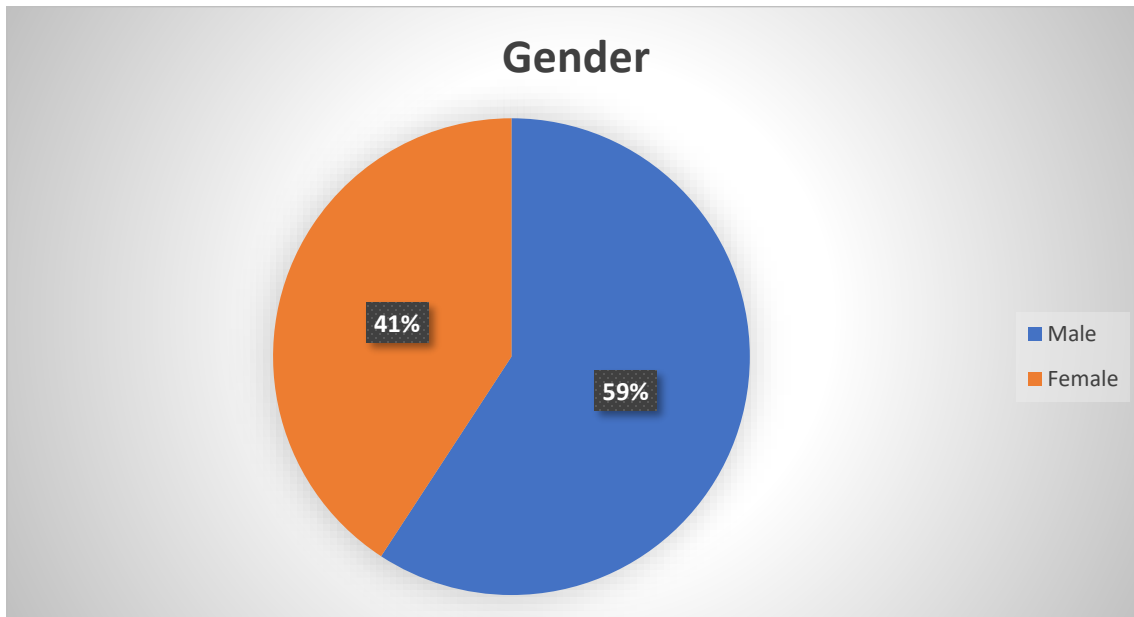


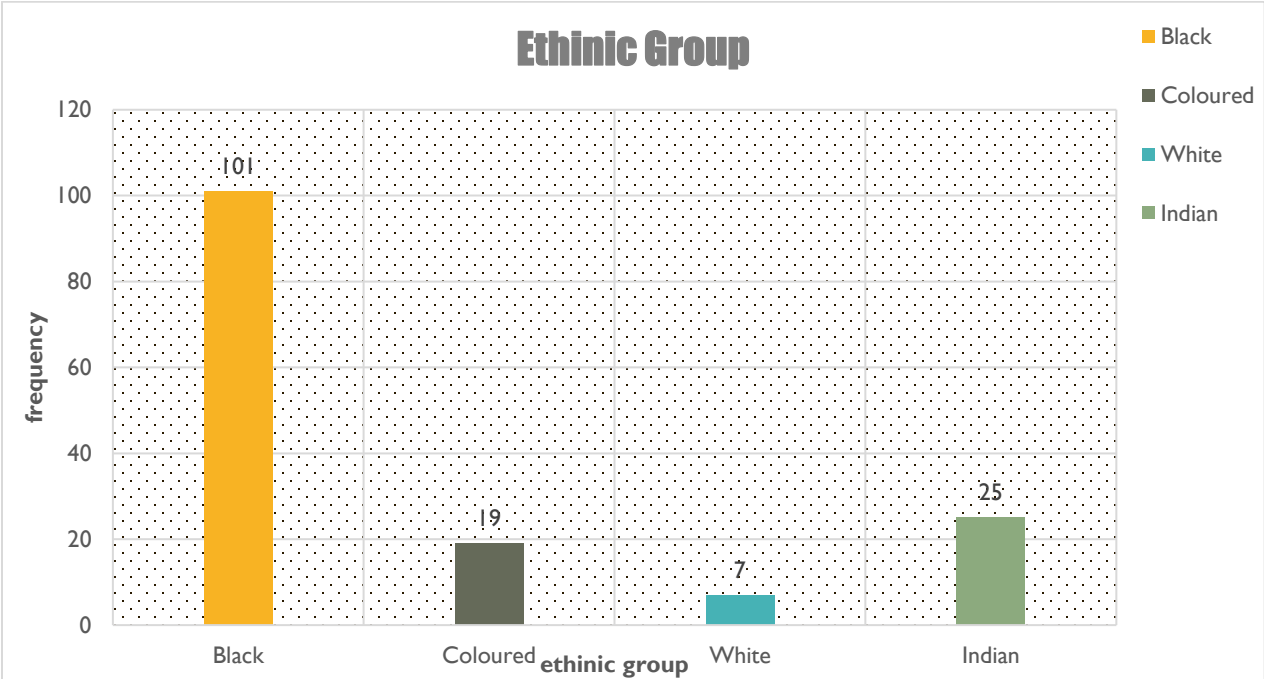
Figure 4.1 shows the gender distribution of the participants of this study. From the 152 participants who took part in this study, 59.2 % were male, whereas, 40.79% were female. The majority of participants were male .

#### Q2. Ethnic group

Figure 4.2 below, outlines the ethnic group of respondents. Of the 152 respondents of this study, the majority were black who constituted 66.45%

of the respondents, whereas, the minority were white who made up 4.61 % of the respondents. Indians made up 16.45% of the sample population and coloureds made up 12.50%.

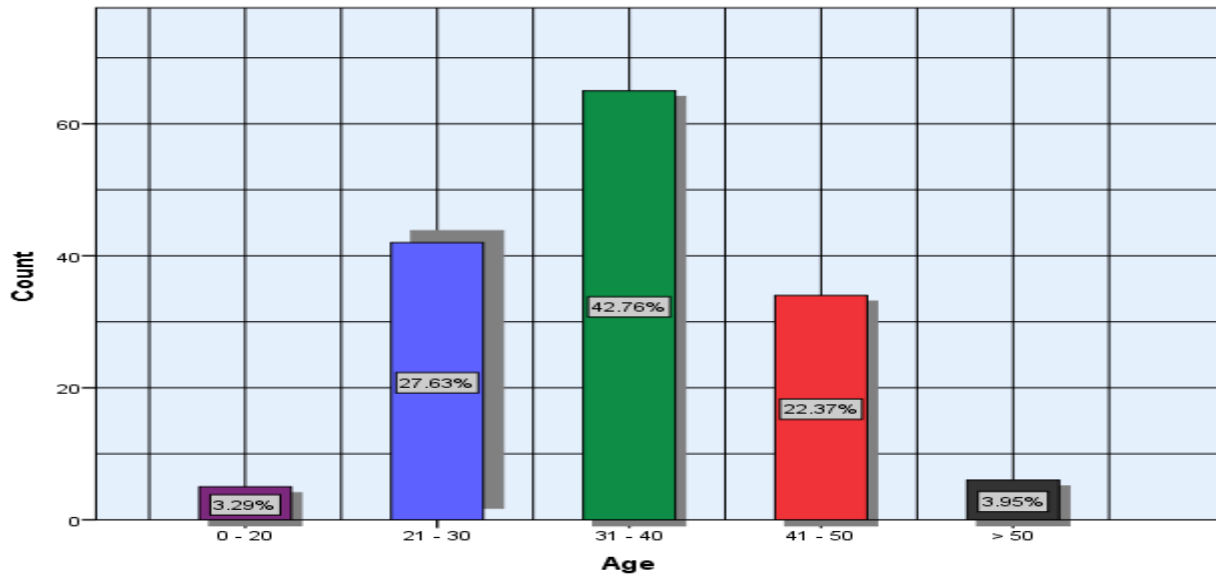
**Figure 2: Ethnic group**



**Q3. Age**

Figure 4.3 below shows the age distribution of the 152 informal business owners who participated in this study. Most of the respondents (42.76%) were in the 31 – 40 age group, whereas, the fewest respondents (3.29%) were aged under 21 (0 – 20). From the total respondents 27.63% fall in the 21 – 30 age group; 22.37% are in the 14 – 50 age group and 3.95% are older than 50 years.

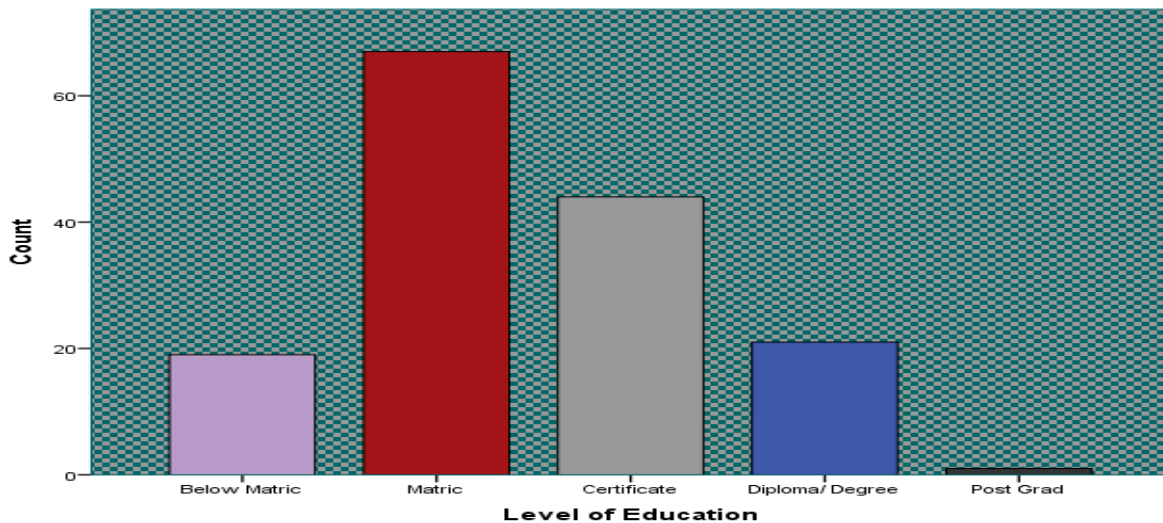
**Figure 3: Age**



**Q 4. Level of education**

Figure 4.4 below outlines the respondents' level of education. Of the 152 informal business owners who participated in this study, 12.50% had an education level below matric, 44.08% had their education up to the matric level, 28.95% had a certificate level education, 13.82% studied towards a degree/ diploma and 0.66% (only 1 person) holds a post-graduate degree.

**Figure 4: Level of Education**



## Q5. Age of business

**Figure 5: Age of business**

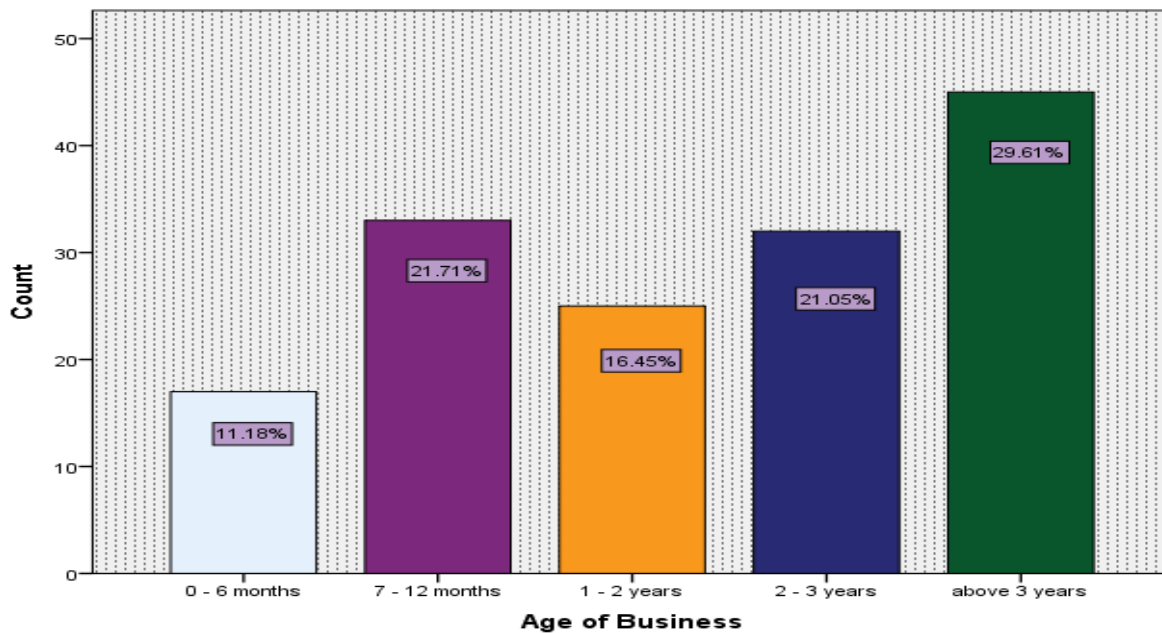
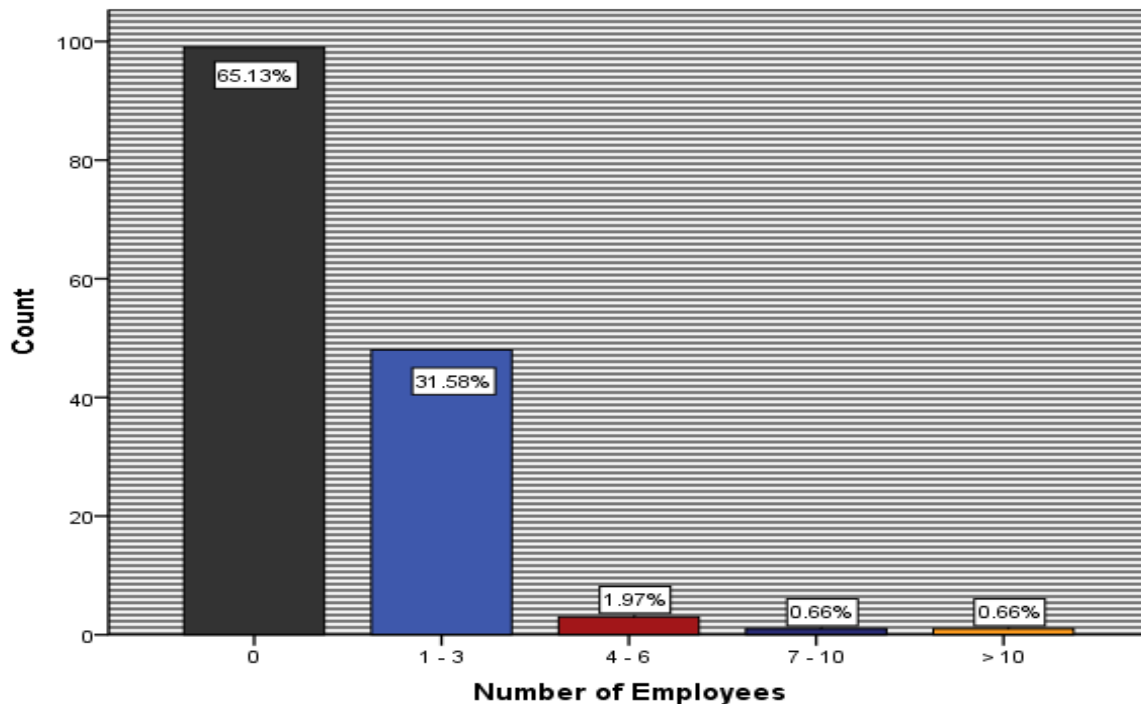


Figure 4.5 summaries the frequency and distribution of the age of businesses (the number of years the informal business have been operational). Of the 152 businesses in this study, 11.18% (the minority) have been operating for 6 months and less; 21.71% have been operational for 7 – 12 months; 16.45% have been operational for 1 – 2 years; 21.05% of the businesses are in the 2 – 3 years age group and 29.61% of the businesses have been operating for more than 3 years.

## Q6. Number of employees

Figure 4.6 outlines the number of employees the 152 informal business owners in this study has. Of the 152 informal business owners who took part in this study, 65.13% (the majority) have no employees; 31.58% have at least one but less than four employees; 1.97% have 4 – 6 employees and only two businesses (1.32%) have more than six employees.

**Figure 6: Number of employees**

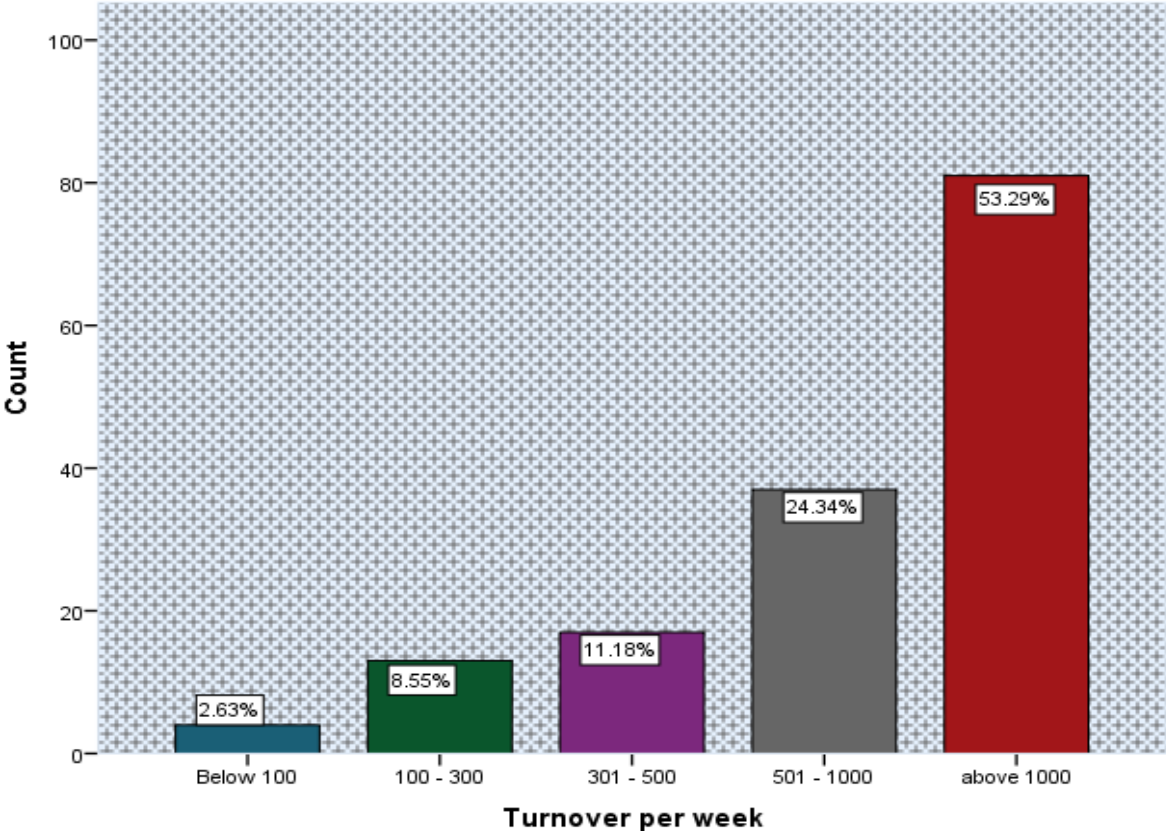


**Q7. Income per week**

Figure 4.7 below shows the frequency and distribution of the income earned per week by the businesses who participated in this study. The majority of respondents (53.29%) earned more than R1000 per week as income; 24.34% earned between R500 and R1000; 11.18% earned between R300 and R500; 8.55% earned between R100 and R300, whereas, the minority 2.63% earned below R100 per week in income.



**Figure 7: Turnover per week**



**4.2.2 Firm support**

**Q8.1. Family support on the business**

From the results in Table 4.1 below, it is shown that 7.2% of respondents feel that their families do not fully support them, as they classify the support from their family as weak; 82.9% feel they are supported by their families and classify the support from their family as strong. The remaining 9.9% were neutral.

**Table 4.1: Support from family**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>very weak</b>	1	.7	.7	.7
	<b>Weak</b>	5	3.3	3.3	3.9
	<b>mildly weak</b>	5	3.3	3.3	7.2
	<b>Neutral</b>	15	9.9	9.9	17.1
	<b>mildly strong</b>	36	23.7	23.7	40.8
	<b>Strong</b>	50	32.9	32.9	73.7
	<b>very strong</b>	40	26.3	26.3	100.0
	<b>Total</b>	152	100.0	100.0	

**Q8.2. Ranking of society support on the business****Table 4.2: Society support**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Weak</b>	2	1.3	1.3	1.3
	<b>mildly weak</b>	20	13.2	13.2	14.5
	<b>Neutral</b>	41	27.0	27.0	41.4
	<b>mildly strong</b>	51	33.6	33.6	75.0
	<b>Strong</b>	31	20.4	20.4	95.4
	<b>very strong</b>	7	4.6	4.6	100.0
	<b>Total</b>	152	100.0	100.0	

Table 4.2 shows that, 14.5% of the respondents feel that their society does not strongly support them as they rated the society support on their business as weak; 27% were neutral; whereas, 58.6% of the respondents feel their society strongly support.

**Q 8.3. Ranking of government support on the business**

Table 4.3 below shows that the majority of respondents (71.7%) feel that the government do not support their businesses, and they rated government support as weak; 13.2% are neutral, whereas, 15.1% think that the government did support them and rated the government's support as strong.

**Table 4.3: Support from government**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very weak	38	25.0	25.0	25.0
	Weak	41	27.0	27.0	52.0
	mildly weak	30	19.7	19.7	71.7
	Neutral	20	13.2	13.2	84.9
	mildly strong	19	12.5	12.5	97.4
	Strong	4	2.6	2.6	100.0
	Total		152	100.0	100.0

## 4.2.3 Entrepreneurial Activity Factors

### 4.2.3.1 Entrepreneurial culture

*(Q1) Aspiration to own a business.*

**Table 4.4: Had dreamed of starting a business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	12	7.9	7.9	7.9
	Neutral	31	20.4	20.4	28.3
	Agree	67	44.1	44.1	72.4
	Strongly Agree	42	27.6	27.6	100.0
	Total		152	100.0	100.0

Table 4.4 reveals that of the 152 respondents of this study, 71.7% had aspirations of owning a business one day; 20.4% of the respondents were neutral, and, only 7.9% of the respondents did not have any aspirations of one day starting/ owning their own business.

## **(Q2) Society's regard of business owners**

Table 4.5 below, show that 61.8% (the majority) of the respondents believe that the society have high regards for business owners 38.2% of the respondents are neutral, whereas, only 4.6% believe the society have low regards for business owners."

**Table 4.5: Society respect business owners**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	<b>Disagree</b>	7	4.6	4.6	4.6
	<b>Neutral</b>	51	33.6	33.6	38.2
	<b>Agree</b>	80	52.6	52.6	90.8
	<b>Strongly Agree</b>	14	9.2	9.2	100.0
	<b>Total</b>	152	100.0	100.0	

## **(Q3) Motivation to start business.**

**Table 4.6: Was encourages to start firm**

		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	<b>Strongly Disagree</b>	5	3.3	3.3	3.3
	<b>Disagree</b>	12	7.9	7.9	11.2
	<b>Neutral</b>	26	17.1	17.1	28.3
	<b>Agree</b>	80	52.6	52.6	80.9
	<b>Strongly Agree</b>	29	19.1	19.1	100.0
<b>Total</b>		152	100.0	100.0	

Table 4.6 reveals that the majority of participants in this study (71.7%) were encouraged by someone to start their own business; 17.1% of the respondents were neutral, and 11.2% were not motivated by anyone to start their own business.

**(Q4) Business background/ exposure.**

**Table 4.7: Had a close member who own a business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	5	3.3	3.3	3.3
	<b>Disagree</b>	13	8.6	8.6	11.8
	<b>Neutral</b>	23	15.1	15.1	27.0
	<b>Agree</b>	87	57.2	57.2	84.2
	<b>Strongly Agree</b>	24	15.8	15.8	100.0
	<b>Total</b>		152	100.0	100.0

Of the 152 participants of this study, 74% had a family member or close family friend who owned a business when they were growing up, 11.8% did not have a family member or close family who owned a business when they were growing up. The remaining 15.1% were neutral.

**(Q5) Opportunistic traits**

**Table 4.8: View problems as opportunities**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	3	2.0	2.0	2.0
	<b>Disagree</b>	7	4.6	4.6	6.6
	<b>Neutral</b>	39	25.7	25.7	32.2
	<b>Agree</b>	71	46.7	46.7	78.9
	<b>Strongly Agree</b>	32	21.1	21.1	100.0
	<b>Total</b>		152	100.0	100.0

Table 4.8 shows that 6.6% of respondents do not view problems as opportunities; 32.25% are neutral; whereas, 67.8% of respondents (the majority) outlined that they view problems in their business environment as opportunities.

### 4.2.3.2 Access to finance

#### (Q6) Starting capital sourcing

**Table 4.9: Starting capital**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	30	19.7	19.7	19.7
	Disagree	47	30.9	30.9	50.7
	Neutral	42	27.6	27.6	78.3
	Agree	30	19.7	19.7	98.0
	Strongly Agree	3	2.0	2.0	100.0
	<b>Total</b>	152	100.0	100.0	

The majority (50.7%) of respondents revealed that it was not easy for them to raise capital to start their business. Only 21.7% of the respondents revealed that it was easy to raise capital to start their business and the remaining 21.7% were neutral on that matter.

#### (Q7) *Economic impact on business*

**Table 4.10: Recession have negatively affected my business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	2.0	2.0	2.0
	Disagree	10	6.6	6.6	8.6
	Neutral	63	41.4	41.4	50.0
	Agree	66	43.4	43.4	93.4
	Strongly Agree	10	6.6	6.6	100.0
	<b>Total</b>	152	100.0	100.0	

The recession negatively affected 50% of the businesses owned by the respondents of this study, whereas, it did not negatively impact 8.6% of the businesses owned by this study's respondents. The remaining 41.4% of the

respondents are neutral to whether the recession had affected their business negatively.

**(Q8) Financial support availability.**

**Table 4.11: Availability of financial support**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	2.6	2.6	2.6
	Disagree	10	6.6	6.6	9.2
	Neutral	21	13.8	13.8	23.0
	Agree	74	48.7	48.7	71.7
	Strongly Agree	43	28.3	28.3	100.0
	Total	152	100.0	100.0	

Table 4.11 reveal that 77% of participants of this study feel that informal businesses are not getting enough financial support whereas, 9.2% of the respondents believe informal businesses are getting enough financial support. The other 13.8% are neutral on that matter.

**(Q9) Borrowing policies favourability.**

**Table 4.12: Borrowing policies favorability**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	32	21.1	21.1	21.1
	Disagree	55	36.2	36.2	57.2
	Neutral	33	21.7	21.7	78.9
	Agree	26	17.1	17.1	96.1
	Strongly Agree	6	3.9	3.9	100.0
	Total	152	100.0	100.0	

From table 4.12 it is shown that, 57.2% of the respondents believe borrowing policies are not favourable to informal businesses; 21% believe they are favourable and 21.7% are neutral on the matter.

**(Q10) Business future outlook.**

**Table 4.13: Business would expand with additional funding**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	2.0	2.0	2.0
	Neutral	12	7.9	7.9	9.9
	Agree	70	46.1	46.1	55.9
	Strongly Agree	67	44.1	44.1	100.0
	Total	152	100.0	100.0	

Of this study's respondents, 90.2% believe if they could get funding their business would expand, 2% believe if they could get funding their business will not expand. The other 10% are neutral.

**(Q11) Entrepreneurship drive.**

**Table 4.14: Started business because of unemployment**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	3.9	3.9	3.9
	Disagree	15	9.9	9.9	13.8
	Neutral	35	23.0	23.0	36.8
	Agree	63	41.4	41.4	78.3
	Strongly Agree	33	21.7	21.7	100.0
	Total	152	100.0	100.0	

63.1% this study's participants admitted that unemployment drove them to start their business; 13.8% were not driven to start their business by unemployment, and 23% were neutral.



### 4.2.3.3 Government and Incubator Support

#### (Q12) Comprehension of government services to SMMEs

Table 4.15: Understand government services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	34	22.4	22.4	22.4
	Disagree	38	25.0	25.0	47.4
	Neutral	56	36.8	36.8	84.2
	Agree	23	15.1	15.1	99.3
	Strongly Agree	1	.7	.7	100.0
	<b>Total</b>	152	100.0	100.0	

The majority (47.4%) of the respondents do not have a good understanding of the government services offered by the government to assist small businesses. Only 15.7% of the respondents have a good understanding of government services offered to assist small businesses. 36.8% of the respondents were neutral.

#### (Q13) Comprehension of municipality services to SMMEs

Table 4.16: Understand municipality services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	30	19.7	19.7	19.7
	Disagree	46	30.3	30.3	50.0
	Neutral	41	27.0	27.0	77.0
	Agree	33	21.7	21.7	98.7
	Strongly Agree	2	1.3	1.3	100.0
	<b>Total</b>	152	100.0	100.0	

From Table 4.16 it is shown that 50% of the respondents do not have a good understanding of the services offered by their local municipality to small businesses, compared to, 23% of the respondents have a good understanding of the services offered by their local municipality to assist small business. The other 27% of the respondents are neutral.

### (Q14) Impact of government initiatives/ programs

**Table 4.17: Have benefited from state initiatives**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	47	30.9	30.9	30.9
	<b>Disagree</b>	49	32.2	32.2	63.2
	<b>Neutral</b>	36	23.7	23.7	86.8
	<b>Agree</b>	20	13.2	13.2	100.0
	<b>Total</b>	152	100.0	100.0	

Table 4.17 reveal that 63.2% of the informal firms in this study had never benefited from government/ municipalities initiatives, whereas, only 13.2% have benefitted from government/ municipalities initiatives. The other 23.7% of the respondents are neutral.

### (Q15) Impact of state controls

**Table 4.18: State controls limit operations**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	1	.7	.7	.7
	<b>Disagree</b>	7	4.6	4.6	5.3
	<b>Neutral</b>	59	38.8	38.8	44.1
	<b>Agree</b>	68	44.7	44.7	88.8
	<b>Strongly Agree</b>	17	11.2	11.2	100.0
	<b>Total</b>	152	100.0	100.0	

Table 4.18 show that 55.9% of respondents believe that state controls limit business operations in their areas of business, 38.8% are neutral, whereas, 5.3% do not believe state controls limit business operations in their areas of business.

### (Q16) Adequacy of available training programs

**Table 4.19: Enough training programs are offered**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	32	21.1	21.1	21.1
	<b>Disagree</b>	58	38.2	38.2	59.2
	<b>Neutral</b>	45	29.6	29.6	88.8
	<b>Agree</b>	16	10.5	10.5	99.3
	<b>Strongly Agree</b>	1	.7	.7	100.0
	<b>Total</b>	152	100.0	100.0	

From table 4.19 it is shown that only 11.2% of informal traders in this study believe enough trading programs are being offered to assist their businesses. The majority of respondents, 59.2%, believe they are not receiving enough training programs to assist them in running their business, whereas, the remaining 29.6% of the respondents are neutral.

### (Q17) Availability of funding avenues

**Table 4.20: Funding avenues are readily available**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<b>Strongly Disagree</b>	47	30.9	30.9	30.9
	<b>Disagree</b>	56	36.8	36.8	67.8
	<b>Neutral</b>	37	24.3	24.3	92.1
	<b>Agree</b>	11	7.2	7.2	99.3
	<b>Strongly Agree</b>	1	.7	.7	100.0
	<b>Total</b>	152	100.0	100.0	

Table 4.20 show that the majority (67.8%) of the respondents believed that funding avenues are not readily available for their business needs. Few respondents 7.9% believed that funding avenues are readily available for their business needs and 24.3% of the respondents were neutral on the matter.

#### 4.2.3.4 Entrepreneurial Education and skills

##### (Q 18) Previous education/ skills contribution to venture creation

**Table 4.21: Previous education helped in setting up firm**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	5.3	5.3	5.3
	Disagree	18	11.8	11.8	17.1
	Neutral	48	31.6	31.6	48.7
	Agree	70	46.1	46.1	94.7
	Strongly Agree	8	5.3	5.3	100.0
	Total	152	100.0	100.0	

From table 4.21, it is revealed that 51.3% of this study's participants felt that their previous education helped them in setting up their business. Moreover, 17.1% felt that their previous education did not help them in setting up their business, and 31.6% of the respondents were neutral on the matter.

##### (Q19) Experience's impact in running a business

**Table 4.22: Have learned business from experience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	18	11.8	11.8	12.5
	Agree	76	50.0	50.0	62.5
	Strongly Agree	57	37.5	37.5	100.0
	Total	152	100.0	100.0	

The majority of informal business owners who participated in this study (87.5%) revealed that they learned much of the things about their business from experience; 0.7% of the respondents (1 person) revealed that they did not learn much of the things of their business from experience and 11.8 % of respondents were neutral on the matter.

## (Q20) Value of business training to business success

**Table 4.23: Training would lead to expansion**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	19	12.5	12.5	13.2
	Agree	91	59.9	59.9	73.0
	Strongly Agree	41	27.0	27.0	100.0
	Total	152	100.0	100.0	

The majority, 86.8%, of the respondents believe that if they get an opportunity to attend business training programs their business would flourish. One person (0.7%) do not see his/ her business flourishing from attending business training programs. Whereas, 12.5% of the respondents were neutral on the matter.

## (Q21) Value of business education to firm success

**Table 4.24: Investing in business education is vital for firm success**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	3.3	3.3	3.3
	Neutral	25	16.4	16.4	19.7
	Agree	98	64.5	64.5	84.2
	Strongly Agree	24	15.8	15.8	100.0
	Total	152	100.0	100.0	

Table 4.24 shows that 80.3% of the respondents of this study believe the key to making it in their business is investing in entrepreneurial/ business education, whereas, 3.3% of the respondents believe otherwise. Of the 152 respondents 16.4% were neutral on the matter.

## (Q22) Importance of business knowledge/ skills to firm survival

Table 4.25 below show that in this study 88.8% of respondents believe that business knowledge and skills are crucial for the survival and growth

of informal businesses, whereas, 0.7% do not believe business knowledge/ skills are crucial for business survival and growth. The other 10.5% of the respondents were neutral.

**Table 4.25: Business skills are crucial for survival and growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	.7	.7	.7
	Neutral	16	10.5	10.5	11.2
	Agree	88	57.9	57.9	69.1
	Strongly Agree	47	30.9	30.9	100.0
	Total	152	100.0	100.0	

#### 4.2.3.5 Firm performance: Objective measures

Ranking of a firm in comparison to others in the informal sector

##### (Q23) Revenue

**Table 4.26: Revenue**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	8	5.3	5.3	5.3
	Neutral	33	21.7	21.7	27.0
	Mildly Stronger	89	58.6	58.6	85.5
	Stronger	22	14.5	14.5	100.0
	Total	152	100.0	100.0	

From Table 4.26 it is shown that 73% of informal business owners believe that their revenue stream is stronger than that of other firms in the informal sector. Very few respondents, 5.3%, believe their revenue is weaker than that of others in the informal sector and 21.7% are neutral in that matter.

## (Q24) Net income

**Table 4.27: Net Income**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	4	2.6	2.6	2.6
	Neutral	36	23.7	23.7	26.3
	Mildly Stronger	78	51.3	51.3	77.6
	Stronger	34	22.4	22.4	100.0
	Total	152	100.0	100.0	

Table 4.27 show that 73.7% of the respondents believe their net income is stronger than that of other firms in the informal sector, 2.6% believe their net income is weaker than that of other firms in the informal sector, and 23.7% are neutral on the issue.

## (Q25) Cashflow

**Table 4.28: Cashflow**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	6	3.9	3.9	3.9
	Neutral	36	23.7	23.7	27.6
	Mildly Stronger	84	55.3	55.3	82.9
	Stronger	26	17.1	17.1	100.0
	Total	152	100.0	100.0	

From table 4.28 it is revealed that 72.4% of respondents believe that their business' cashflow is stronger than that of other firms in the informal sector; 3.9% believe that their firms' cashflow is weaker and the other 23.7% are neutral.

## (Q26) Return on equity

In table 4.29 below is shown that of the 152 respondents of this study, 71.8% believe their business' return on equity is stronger than that of other firms in the informal sector; 5.3% believe it is weaker and 32.9% are

neutral.

**Table 4.29: Return on Equity**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weaker	1	.7	.7	.7
	Mildly Weaker	7	4.6	4.6	5.3
	Neutral	50	32.9	32.9	38.2
	Mildly Stronger	68	44.7	44.7	82.9
	Stronger	26	17.1	17.1	100.0
	<b>Total</b>	152	100.0	100.0	

**(Q27) Return on Assets**

**Table 4.30: Return on Assets**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weaker	1	.7	.7	.7
	Mildly Weaker	7	4.6	4.6	5.3
	Neutral	51	33.6	33.6	38.8
	Mildly Stronger	70	46.1	46.1	84.9
	Stronger	23	15.1	15.1	100.0
	<b>Total</b>	152	100.0	100.0	

Of the 152 respondents of this study 61.1% respondents of informal business owners who participated in this study believe that their firm has a stronger return on assets than other firms in the informal sector; 5.3% believe their firm have a weaker return on assets, and the other 33.6% were neutral.

**(Q28) Return on Capital**

Table 4.31 below reveal that 70.4% of the respondents of this study believe their business' return on capital to be stronger than that of other firms in the informal sector, 3.9% believe their business' return on capital



is weaker than that of other firms in the informal sector, whereas, 25.7% of the respondents were neutral in the matter.

**Table 4.31: Return on Capital**

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	<b>Mildly Weaker</b>	6	3.9	3.9	3.9
	<b>Neutral</b>	39	25.7	25.7	29.6
	<b>Mildly Stronger</b>	83	54.6	54.6	84.2
	<b>Stronger</b>	24	15.8	15.8	100.0
	<b>Total</b>	152	100.0	100.0	

**(Q29) Total Debt to Equity**

**Table 4.32: Total Debt to Equity**

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Valid</b>	<b>Weaker</b>	3	2.0	2.0	2.0
	<b>Mildly Weaker</b>	11	7.2	7.2	9.2
	<b>Neutral</b>	50	32.9	32.9	42.1
	<b>Mildly Stronger</b>	59	38.8	38.8	80.9
	<b>Stronger</b>	29	19.1	19.1	100.0
	<b>Total</b>	152	100.0	100.0	

From table 4.32 it is revealed that 57.9% of informal business owners who participated in this study believe their firm's total debt to equity ratio is stronger than that of other firms in the informal sector; 9.2% believe it is weaker, and 32.9% are neutral.

**(Q30) Long-term Debt to Equity**

In table 4.33 below it is revealed that 64.5% of respondents believe their firm's long-term debt to equity ratio is strong than that of others in the informal sector; 11.2% believe it is weaker, and 24.3% were neutral on the matter.

**Table 4.33: Long term debt to Equity**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weaker	4	2.6	2.6	2.6
	Mildly Weaker	13	8.6	8.6	11.2
	Neutral	37	24.3	24.3	35.5
	Mildly Stronger	74	48.7	48.7	84.2
	Stronger	24	15.8	15.8	100.0
	Total	152	100.0	100.0	

**4.2.3.6 Firm performance: Subjective (non-financial)****Measures**

How a firm performs compared to the industry average.

**(Q31) Market share****Table 4.34: Market Share**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weaker	1	.7	.7	.7
	Mildly Weaker	11	7.2	7.2	7.9
	Neutral	48	31.6	31.6	39.5
	Mildly Stronger	85	55.9	55.9	95.4
	Stronger	7	4.6	4.6	100.0
	Total	152	100.0	100.0	

The majority of the respondents of this study (60.5%) believe their firm's market share is stronger than that of the industry's average; 7.9% believe their market share is weaker, whereas the other 31.6% were neutral.

**(Q32) Capacity Utilisation**

Table 4.35 below show that 61.2% of the respondents believe than their firm's capacity utilisation is stronger than the industry's average; 4.6% believe their firm's capacity utilisation is weaker and 34.2% were neutral.

**Table 4.35: Capacity Utilisation**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	7	4.6	4.6	4.6
	Neutral	52	34.2	34.2	38.8
	Mildly Stronger	80	52.6	52.6	91.4
	Stronger	13	8.6	8.6	100.0
	Total	152	100.0	100.0	

**(Q33) Product quality****Table 4.36: Product Quality**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	1	.7	.7	.7
	Neutral	26	17.1	17.1	17.8
	Mildly Stronger	81	53.3	53.3	71.1
	Stronger	44	28.9	28.9	100.0
	Total	152	100.0	100.0	

When comparing their firm's products quality to that of the industry's average, the majority participants of this study (82.2%) believe their firm's product quality is stronger; 0.7% believe their firm's product quality is weaker, and 17.1% were neutral.

**(Q34) Product delivery****Table 4.37: Product Delivery**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	20	13.2	13.2	13.2
	Mildly Stronger	104	68.4	68.4	81.6
	Stronger	28	18.4	18.4	100.0
	Total	152	100.0	100.0	

Of the 152 informal business owners who participated in this study, 86.8%

believe that their firm’s product delivery is stronger than that of the industry’s average, whereas, the remaining 13.2% were neutral on the matter.

**(Q35) Customer satisfaction**

**Table 4.38: Customer satisfaction**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	28	18.4	18.4	18.4
	Mildly Stronger	96	63.2	63.2	81.6
	Stronger	28	18.4	18.4	100.0
	Total	152	100.0	100.0	

Out of 152 respondents 81.6% believe that their firm’s customer satisfaction rating is stronger than that of the industry’s average. The other 18.4% of the respondents were neutral on the matter.

**(Q36) Customer Retention**

**Table 4.39: Customer Retention**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mildly Weaker	2	1.3	1.3	1.3
	Neutral	42	27.6	27.6	28.9
	Mildly Stronger	92	60.5	60.5	89.5
	Stronger	16	10.5	10.5	100.0
	Total	152	100.0	100.0	

Of the 152 informal business owners who participated in this study, 71% believed their firm’s customer retention rating is stronger than that of the industry’s average; 1.3% believe their rating is weaker, and the other 27.6% were neutral.

**(Q37) Employee satisfaction**

Table 4.40 below show that 67.1% of the respondents of this study believe

that their firm’s employee satisfaction rating is stronger than that of the industry’s average, 3.9% believe it is weaker, and 28.9% were neutral on the matter.

**Table 4.40: Employee satisfaction**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Weaker	2	1.3	1.3	1.3
	Mildly Weaker	4	2.6	2.6	3.9
	Neutral	44	28.9	28.9	32.9
	Mildly Stronger	73	48.0	48.0	80.9
	Stronger	29	19.1	19.1	100.0
	Total	152	100.0	100.0	

***(Q38) Employee Turnover***

**Table 4.41: Employee turnover**

		Frequency	Percent	Cumulative Percent
Valid	Weaker	2	1.3	1.3
	Mildly Weaker	6	3.9	5.3
	Neutral	47	30.9	36.2
	Mildly Stronger	78	51.3	87.5
	Stronger	19	12.5	100.0
	Total	152	100.0	

Of the 152 respondents, 63.8% believe their employee turnover rating is stronger than that of the industry’s average; 5.3% believe their firm’s employee turnover rating is weaker, and 30.9% were neutral.

**4.3 INFERENCE STATISTICS**

To investigate the relationship between the determinants of entrepreneurship (culture of entrepreneurship, access to finance, government and incubator support, and entrepreneurial education/skills)

and firm performance (objective and subjective), Pearson Correlation and simple linear regression (SLR) analysis were undertaken. Pearson correlation results are displayed in Table 4.42.

**Table 4.42: Pearson Correlation Analysis results**

	CE	AF	GIS	EES	OF	SNF
CE	-					
AF	0.163	-				
GIS	-0.161*	0.093	-			
EES	0.405**	-0.119	-0.144	-		
OF	0.319**	-0.012	0.169*	0.345**	-	
SNF	0.309**	-0.041	-0.010	0.429**	0.666**	-

Key: CE (culture of entrepreneurship); AF (access to finance); GIS (government and incubator support); EES (entrepreneurial education/ skills); OF (Objective (financial) measures); and SNF (subjective (non-financial) measures).

\*Correlation significant at the 0.05 level (2-tailed)

\*\* Correlation significant at the 0.01level (2-tailed).

The Pearson Correlation test results in Table 4.42 reveal that adopting an entrepreneurship culture has a positive significant but weak relationship with a firm's financial and non-financial performance  $r = 0.319$  and  $r = 0.309$  respectively. However, access to finance is negatively correlated to financial firm performance,  $r = -0.012$  and non-financial performance,  $r = -0.041$ . Furthermore, the Pearson correlation test reveal that government and incubator support have a positive significant but weak relationship with a firm's financial performance and is negatively correlated with a firm's non-financial performance,  $r = 0.169$  and  $r = -0.010$ . Moreover, entrepreneurial education/ skills are revealed to have a positive significant but weak relationship with a firm's financial performance ( $r = 0.345$ ) and non-financial performance ( $r = 0.429$ ).

Simple linear regression (SLR) analysis was undertaken to test data on the hypothesis stating that a culture of entrepreneurship predicts subjective firm performance. The analysis results are displayed in Table 4.43.

**Table 4.43: Simple Linear Regression (SLR) analysis outcome on entrepreneurial culture and financial performance.**

		Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.442	.326		7.483	.000	1.797	3.087
	culture_of_Entrep	.353	.086	.319	4.121	.000	.184	.522

a. Dependent Variable: Financial\_Performance

Results shown in Table 4.43 reveal that there is a positive significant relationship between a culture of entrepreneurship and a firm's financial performance (beta value = 0.353; p = 0.000). In other words, a unit increase in the culture of entrepreneurship leads to a corresponding increase in financial performance by 0.353 units. Given the indicated results, there is no sufficient evidence to reject the hypothesis stating that an entrepreneurship culture predicts financial performance at the 95% confidence interval.

Similarly, to test data regarding hypothesis 2 stating that a culture of entrepreneurship predicts objective firm performance a simple linear regression (SLR) analysis was undertaken. The test results are displayed in Table 4.44.

**Table 4.44: Simple Linear Regression (SLR) analysis outcome on entrepreneurial culture and subjective financial performance.**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.869	.245		11.716	.000	2.385	3.353
	culture_of_Entrep	.256	.064	.309	3.984	.000	.129	.383

a. Dependent Variable: Non\_Financial\_Performance

The results in Table 4.44 indicate that there is a relationship between a culture of entrepreneurship and a firm’s subjective performance (beta value = 0.256 and a p = 0.000). The stated results indicate that a unit increase in entrepreneurship culture result in a corresponding 0.256 units increase in subjective performance of the firm. Given the stated results, there is no sufficient evidence to reject the hypothesis stating that a culture of entrepreneurship predicts non-financial performance of the firm at the 95% confidence interval. Thus, hypotheses 1 and 2 of this study were supported.

Furthermore, access to finance was found to have no unique contribution towards both a firm’s financial performance (beta value = -0.020; p-value = 0.879), non-financial performance (beta value = -0.049; p-value = 0.617). The regression analysis output with respect to access to finance and financial performance and non-financial performance are shown in Table 4.45 and Table 4.46, respectively.



**Table 4.45: SLR analysis outcome for access to finance and financial performance.**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.842	.450		8.529	.000	2.952	4.732
	Access_to_finance	-.020	.132	-.012	-.152	.879	-.281	.240

a. Dependent Variable: Financial\_Performance

Given the stated results, hypothesis 3 stating that access to finance predicts financial performance is not supported at the 95% confidence interval. This conclusion also applies to hypothesis 4 stating that access to finance predicts non-financial performance of the firm. Thus, there is sufficient evidence to accept the null hypothesis stating that access to finance does not predicts non-financial performance of the firm at the 95% confidence interval.

**Table 4.46: SLR analysis outcome for access to finance and non-financial performance.**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.003	.337		11.891	.000	3.338	4.668
	Access_to_finance	-.049	.099	-.041	-.501	.617	-.244	.145

a. Dependent Variable: Non\_Financial\_Performance

The study also revealed that as firm owners' entrepreneurial education/skills increase so does the financial and non-financial performance of their business. Results are displayed in Table 4.47 and 4.48 respectively. In Table 4.47, entrepreneurial education is significantly and positively related to financial performance of the firm (b-value = 0.452; p-value = 0.000).

**Table 4.47: SLR analysis outcome between entrepreneurial education/skills and financial performance.**

		Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	1.982	.400		4.950	.000	1.191	2.774
	Entrepreneurial_education	.452	.100	.345	4.502	.000	.253	.650

a. Dependent Variable: Financial\_Performance

Table 4.48, results indicate that there is a positive significant relationship between entrepreneurial education and non-financial performance (beta value = 0.420; p-value = 0.000).

**Table 4.48: SLR analysis outcome between entrepreneurial education/skills and non-financial performance.**

		Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95,0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	2.170	.288		7.527	.000	1.600	2.740
	Entrepreneurial_education	.420	.072	.429	5.814	.000	.277	.563

a. Dependent Variable: Non\_Financial\_Performance

Therefore, hypotheses stating that entrepreneurial education and skills predict financial performance and non-financial performance were supported at the 95% confidence interval.

The study also reveals that government support and incubation activities increase a firm's financial performance (b-value = .156; p-value = .037), but do not have a significant effect on a firm's non-financial performance (b-value = -.007; p-value = .899). The study's results are displayed in Table 4.49 and 4.50.

**Table 4.49: SLR analysis outcome on government and incubator support with financial performance**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.377	.195		17.345	.000	2.992	3.762
	Govt_Incubator_Support	.156	.074	.169	2.100	.037	.009	.303

a. Dependent Variable: Financial\_Performance

Table 4.50 reveal the regression analysis outcome between government support and incubation support with non-financial performance of the firm.

**Table 4.50: SLR analysis outcome on government and incubation support with non-financial performance.**

Coefficients <sup>a</sup>								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.854	.148		26.084	.000	3.562	4.146
	Govt_Incubator_Support	-.007	.056	-.010	-.127	.899	-.119	.104

a. Dependent Variable: Non\_Financial\_Performance

The stated results indicate that the hypothesis stating government and incubation support predicts financial performance is supported at the 95% confidence interval while the hypothesis stating that government and incubation support predicts non-financial performance of the firm is rejected at the 95% confidence interval.

#### 4.4 CONCLUSION

In this chapter, the study's findings were presented and analysed. Data was presented in a tabular or graphical form and was commented on. The secondary analysis was then done, and the inferential statistics commented on. In the next chapter, the conclusions and recommendations will be presented.

# **CHAPTER 5**

## **DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

In the previous chapter (Findings and Analysis), data collected from the field was analysed using descriptive and inferential statistics. Results from the conducted survey were presented in graphical/ table form, and then commented on.

In this chapter, the findings of this study are discussed, and suggestions and recommendations for further research are proposed.

### **5.2 RE-CAP OF OBJECTIVES**

The aim of this study was to explore informal sector entrepreneurial activities/ business ownership in the Durban Metropolitan area with the hope of recommending ways in which the sector can be enhanced.

The following were the objectives of this research study:

- To determine the level of informal sector entrepreneurial activities or informal business ownership/ management within the Durban Metropolitan area.
- To ascertain whether culture of entrepreneurship; access to finance; government and incubator support; and entrepreneurial education and skills predict firm performance (financial and subjective).

- To identify the various types and or forms of informal sector businesses/ entrepreneurial activities within the Durban Metropolitan area
- To identify major challenges existing informal business owners/ managers, face when operating in the Durban Metropolitan Area.
- To identify measures put in place to promote the establishment and growth of entrepreneurial ventures in the Durban Metropolitan area.

The objectives of this study were realised through this study's chapter 2 (literature review) and chapter 4 (findings and analysis). Chapter 2 provided general outlook information on the objectives, and Chapter 4 provided practical information on the specific objectives pertaining to the Durban Metropolitan area. The first objective was to determine the level of informal sector entrepreneurial activities within the Durban Metropolitan area. The literature review explicated the general levels of entrepreneurial activities, whereas, this study's findings and analysis highlighted the level of informal sector entrepreneurial activities in the Durban Metropolitan area.

To ascertain whether an entrepreneurial culture, access to finance, government and incubator support, and entrepreneurial education /skills predict firm performance, hypotheses were proposed. The secondary data analysis conducted in chapter 4 resulted in the testing of these hypotheses.

From the results obtained from the data analysis, the researcher was provided with evidence on which to either accept or reject the alternative hypotheses, thereby, realising the second objective. The hypotheses test results are summarised at the end of this section in Table 5.1.

The secondary objectives of this study - to identify the various types and/or forms of informal sector businesses/ entrepreneurial activities; to identify major challenges existing informal entrepreneurs face when operating, and to identify measures in place to promote the establishment and growth of entrepreneurial ventures in the Durban Metropolitan area were realised through Chapter 4 of this study.

**Table 5.1: Summary of hypotheses tested outcomes**

Hypothesis	Details	Outcome
H1	A culture of entrepreneurship predicts objective firm performance	$P < 0.05$ (Accept)
H2	A culture of entrepreneurship predicts subjective firm performance	$P < 0.05$ (Accept)
H3	Access to finance for firms predict objective firm performance	$p > 0.05$ (Reject)
H4	Access to finance for firms predict subjective firm performance	$P > 0.05$ (Reject)
H5	Entrepreneurial education and skills support for firms predict objective firm performance.	$P < 0.05$ (Accept)
H6	Entrepreneurial education and skills support for firms predict subjective firm performance.	$P < 0.05$ (Accept)
H7	Government and incubator support for firms predict objective firm performance.	$P < 0.05$ (Accept)
H8	Government and incubator support for firms predict subjective firm performance.	$P > 0.05$ (Reject)

#### **5.4 MAJOR FINDINGS OF THE STUDY**

The study found the selected informal sector location to be dominated by male business owners. A total of 152 participants took part in the study and 59.2% were male. The dominance of males in the informal sector depicts that many African house-holds males are the bread winners of the family, and due to the shedding of jobs in most formal industries people unable to secure jobs thereby join the informal sector as a survival strategy. The majority of informal entrepreneurs (92.76%) were aged between 20 and 50 years. Furthermore, the study established that informal entrepreneurship offered a decent revenue stream enabling those involved to earn a decent lifestyle. From the results, it was established around 53.29% earned a minimum of R1000 per week (US\$70 by the time of writing). These findings are in line with literature that highlighted the informal sector as one of the primary drivers of a country's economy for it has capabilities to lower unemployment and reduce poverty (African Development Bank 2013, Webb *et al* 2013).

With regard to age of informal businesses, the study found out that the majority of the informal firms (50.66%) have been in operation for more than two years. Furthermore, the study established that the majority of informal traders (65.13%) had no employees and only 3.22% hired more than 3 employees. These findings support Lekhanya (2015) and Herrington *et al.*



(2010) who highlighted that informal firms marginally contribute to job creation.

This study's findings also revealed that informal business owners believed they had the support of their family and society but not of the government. When asked about the support they received from family, society and the government, 82.9 % of the respondents revealed they feel their families support them, 58.6% of participants revealed they feel their society support them, whereas, 71.7% feel that the government is not doing enough to support their firms. These findings are in line with literature (Makhoba 2010; Doepke and Ziliborti 2013; Yang and Dane 2015; Chakraborty *et al.* 2016) that outline that people are unlikely to create businesses/ take an entrepreneurial career route if family and peers are against that career choice.

Furthermore, the study's findings reveal that 47.4% of informal business owners do not have a good understanding of the services offered by the government and local municipalities in supporting SMMEs and have not benefited from such assistance. Furthermore, 50% of the respondents revealed that they do not have a good understanding of the services offered by their local municipality to small businesses. Given these findings, it is therefore no surprise that the majority of informal business owners (63.2%) had not received any support from the government, be it financially or non

– financially. The findings are in line, with prior studies that institute that the government is biased towards supporting SMMEs (Webb *et al.* 2013; Hutchinson 2014).

The study also revealed that firm owners had difficulties obtaining starting capital. Thus, 50.7% of the respondents revealed that it was not an easy task for them to raise capital. Moreover, the findings revealed that 77% of the informal firms are not receiving adequate financial support from financial institutions with 57.2% of the view that their borrowing policies were unfavorable to informal firms. These findings are in line with literature which outlined that small businesses have limited access to finance (Eurostat 2012; Kamau and Ngugi 2014). Hutchinson (2014) and Lekhanya (2015) concurred and pointed out that financial institutions have stringent conditions in place for informal enterprises and SMMEs. Nevertheless, the results also reveal that informal firm owners are optimistic that with funding their firms will expand.

This study reveals that previous (entrepreneurial) education/ skills are key to starting a business. A total of 51.4 % of this study's participants revealed that their previous education helped them in starting their firms. When it comes to running the actual firm, the study reveals that much of things about running a business are acquired through experience. From the 152 participants of this study 87.5% revealed that they have learned much about

running their business from the actual running of their business. These findings establish that entrepreneurial education is key for firm establishment and success (Lekhanya 2015). Moreover, the findings highlight the importance of experience in running a business.

Informal entrepreneurs recognise the importance of acquiring entrepreneurial education. From the study, 86.9% of the participants believe getting an opportunity to attend business training programs would enhance their business performance, 88.8% believe business knowledge and skills determine the informal firms' survival and growth prospects, and 80.3 % of the respondents believe if they are to make it in business, they must invest in business education. The findings on entrepreneurial education and skills are in support of Paltasingh (2012:213) and Lekhanya (2015) postulation that entrepreneurial education helps people develop skills and knowledge, which could benefit them in starting, organising and managing their firms.

From the study it was found that, most informal firm owners believe their firm's financial performance is superior to that of other firms in the informal sector. Most informal firm owners believe their firms are more profitable, more efficient in their operations, and have a better liquidity position than other firms in the informal sector. Moreover, the study show that most informal firm owners believe their firms have a better non – financial

performance position than the average firm in the industry. Informal firm owners believe they occupy a larger market share, produce better quality products, fully utilise capacity, satisfy customers better and thereby retain them, and treat employees better and therefore retain them than the industry's average. With these findings it can be proposed that informal businesses are an extension of their owners. Informal firm owners value their businesses highly and take pride in their performance.

The study found that the adoption of an entrepreneurship culture, entrepreneurial education and skills, significantly predicts a firm's financial and subjective performance. Further, it was found that government and incubation support predict a firm's financial performance. However, it was also established that government and incubation support have a negative non-significant relationship with a firm's non-financial performance. Furthermore, access to finance was found to have a negative non-significant relation with a firm's financial and non-financial performance.

## **5.5 DISCUSSION**

The following section focuses on discussing the findings of this study; it highlights similarities and/ or differences of this study's findings to those of other authors with similar studies. The discussion addresses each hypothesis comparing the present findings and previous studies.

### **5.5.1 Culture of entrepreneurship and firm performance**

The first and second hypotheses of this study were to ascertain if a culture of entrepreneurship for firms predicts objective and subjective firm performance, respectively. The Pearson correlation and simple regression analysis tests conducted to test the hypotheses indicated that the culture of entrepreneurship predicts a firm's subjective and objective performance. Various scholars who have conducted studies in the field of entrepreneurship, particularly those who have explored the link between entrepreneurial culture/ entrepreneurial orientation and firm performance have produced results that outline a positive relationship between the two variables (Benitez-Amado *et al.* 2010; Cornwall 2011; Salloum and Cedergren 2012; Otache and Mahmood 2015; Zehir *et al.* 2015; Cowden *et al.* 2016, Rigtering *et al.* 2017).

This study's findings that positively link the culture of entrepreneurship to objective and subjective performance are similar with the findings obtained by Otache and Mahmood (2015). Benitez-Amado *et al.* (2010) study also found a positive relationship between an entrepreneurial culture and firm performance. Though, Benitez-Amado *et al.* (2010) study targeted information technology firms, evidence was provided that an entrepreneurial culture leads to higher sales growth, market share growth, and superior product and market development. Similarities of this current study's findings and the findings of Otache and Mahmood (2015) and

Benitez-Amado et al. (2010) can be attributed to the fact that the three-studies target population were SMMEs.

Zehir *et al.* (2015) and Cowden *et al.* (2016), just as this study, found that an entrepreneurial culture predicts both a firm's financial and non-financial performance. Zehir *et al.* (2015)'s study links entrepreneurial orientation to firm performance, whereas Cowden *et al.* (2016)'s study explored what becomes of entrepreneurial oriented firms when they mature. The similarity of this study's findings to that of Cowden *et al.* (2016) and Zehir *et al.* (2015) can be attributed to the comparability of the studies' objectives. All three studies explored the relationship between an entrepreneurial culture/orientation and firm performance.

Salloum and Cedergren (2012) and Rigtering *et al.* (2017) also found the culture of entrepreneurship to be positively related to firm performance. The two studies outlined the importance of being innovative, proactive..., and risk tolerant if a firm is to improve its profitability, market share, and overall business performance. This study support and provide evidence of the relationship between a culture of entrepreneurship and firm performance as found by other scholars (Benitez-Amado *et al.* 2010; Cornwall 2011; Salloum and Cedergren 2012; Otache and Mahmood 2015; Zehir *et al.* 2015; Cowden *et al.* 2016; Rigtering *et al.* 2017). Though other authors

conducted their studies on formal firms, this study which focused on informal firms found similar discoveries.

### **5.5.2 Access to finance and firm performance**

The third and fourth hypotheses of this study set to establish whether a firm's access to finance predict the firm's subjective and objective performance. The findings of this current study revealed that access to finance does not predict a firm's subjective and objective firm performance. The results of this study differ to the findings of other investigators in literature (e.g. Fafchamps and Schndeln 2012; Thanh *et al.* 2012; Adomako and Danso 2015; Zhou 2015).

Fafchamps and Schndeln (2012) acknowledge that access to finance predict firm performance. In their study conducted in Morocco, Fafchamps and Schndeln (2012) revealed that having access to finance enables a firm to increase its employees' productivity, reduce labour costs and increase its profitability. In line with Fafchamps and Scndeln (2012), Thanh (2012) also found that firms with access to finance are more productivity and perform better than those with limited access to funding.

This study's findings contrast the results obtained by Zhou (2015), who found a positive relationship between access to finance and a firm's performance, most notably the firm's employment growth rate. Adomako

and Danso (2015) also highlights a positive relationship between access to finance and firm performance. In their study, Adomako and Danso (2015) outline that lack of access finance limit the operating power, growth, and thereby the overall performance of a firm.

Findings from Thanh *et al.* (2012), a study on Vietnam firms also reveal a positive relationship between access to finance and firm performance, which contrasts with the findings of this study. Thanh *et al.* (2012) established that firms that have access to credit channels develop quicker and have higher profits than those that do not borrow.

The dissimilarities between this study's findings and the findings of other authors (Fafchamps and Schndeln 2012; Thanh *et al.* 2012; Adomako and Danso 2015; Zhou 2015) may be attributed to the characteristics of the study population. This study's population was made up of informal firms, whereas, other studies targeted more established bigger firms - formal firms. Informal business owners/ managers are generally highlighted to lack financial management skills entailing for those in this study who somehow obtained finance, would to a large extend, not be capable of fully utilising the finance to improve the performance of their firms, hence this study found access to finance not to predict firm performance.



Considering that this study's findings contrast the findings of other authors (Fafchamps and Schndeln 2012; Thanh *et al.* 2012; Adomako and Danso 2015; Zhou 2015) this researcher, therefore, propose that access to finance is a major determinant of firm performance, only if firm managers/ owners know how to manage that finance.

### **5.5.3 Entrepreneurial education/ skills and firm performance.**

This study's fifth and sixth hypotheses were to ascertain if entrepreneurial skills/ education predict a firm's subjective and objective performance, respectively. Entrepreneurial education and skills support for firms was found to predict both objective, and subjective firm performance. The results of this study are in accord with the findings of other investigators available in literature. (e.g. Maritz 2013; Leiva *et al.* 2014; Regasa 2014; Mgeni 2015; Nkosi *et al.* 2015).

Mgeni (2015) study revealed a positive relationship between entrepreneurial education/ skills and firm performance just as this study's results. This study's results are also in accord with Nkosi *et al.* (2015) findings that outlined a positive relationship between a firm owner's/ manager's entrepreneurial/ business knowledge and the firm's performance. Furthermore, this study's results mirror Maritz (2013) findings, that outline a positive relationship between entrepreneurial education and firm performance, and even went further to outline the

consequences of lacking entrepreneurial education. The similarities of this study's findings to that of Mgeni (2015); Maritz (2013) and Nkosi *et al.* (2015) may be attributed to the fact that, all the studies were quantitative in nature.

This study's findings are in line with Leiva *et al.* (2014) findings, that indicate a positive relationship between entrepreneurial education and firm performance. Regasa (2014) in a study on selected firms also found business/ entrepreneurial education to have a positive relationship with a firm's subjective and objective performance as measured by a firm's market share, sales, and profitability. The similarities between this current study's results to that of Leiva *et al.* (2014) and Regasa (2014) stem from the fact that the three studies were done in somehow similar economic environmental settings. All three studies target populations were in developing countries.

No literature contending the current study's results was found by the researcher. Since this current study's findings concur with the results of other scholars in literature (Maritz 2013; Leiva *et al.* 2014; Regasa 2014; Mgeni 2015; Nkosi *et al.* 2015), that entrepreneurial education predicts firm (objective and subjective) performance, entrepreneurial education is therefore, key to superior/ improved firm performance. This entails that, all

other things being constant, for one to improve his/her firm's performance one must increase or acquire entrepreneurial/ business education.

#### **5.5.4 Government and incubator support, and firm performance.**

This study's 7<sup>th</sup> and 8<sup>th</sup> hypotheses ascertained whether government/incubator support predict a firm's objective and subjective performance, respectively. This study's findings reveal that government and incubator support for firms predict objective firm performance. Furthermore, this study's findings reveal that government and incubator support do not predict subjective firm performance. The finding that government and incubator support predict objective firm performance is observed by other authors in literature (e.g. Xiang and Worthington 2013; Mbatha 2015; Wei and Lui 2015,).

This study's findings are in line with the results of Mbatha (2015)'s study. Mbatha (2015) study outline a positive relationship between government and incubator support, and firm financial performance. Moreover, this study's findings concur with Wei and Lui (2015) study's results. In their study on firms in China, Wei and Lui (2015) found a positive relationship between government support and firm performance. This study's findings (government support predict objective firm performance) is similar to Mbatha (2015), and Wei and Lei (2015) findings, mainly because all the studies conducted an analysis on SMMEs.

Similar findings to this study were also reported in a study conducted by Xiang and Worthington (2013) on selected small businesses in Australia. It was found that government assistance improves SMME's performance. Similarities in the findings are anchored on the facts that both studies targeted a similar business group – SMMEs, and both studies objectives ascertained the impact of government assistance on the target population.

Though, the findings of this study revealed government and incubator support predict objective firm performance, this study also found that government and incubator support does not predict a firm's subjective performance. This finding is somehow similar to that found by Das (2017) on an analysis of urban informal sector firms in India. Das (2017) found that government support on informal firms have a very low impact on their performance, furthermore, their study highlights government support as one of the least factors that attract people to establish firms. The similarities in the findings of this study and Das (2017)'s study can be credited to the similarities in the methodology used in both studies. Both studies had urban informal traders as their target population, conducted a survey to collect data and used a quantitative research approach in the study.

Basing on the evidence provided in this study and that from literature (Xiang and Worthington 2013; Mbatha 2015; Wei and Lui 2015,), the researcher

acknowledges the vitality of government and incubator support on the performance of firms. Furthermore, considering that this study found that government and incubator support have no or an insignificant impact on a informal firm' s subjective performance, the researcher calls for better supportive policies to enable informal firms to fully flourish.

## **5.6 IMPLICATIONS OF THE STUDY**

The following section will offer a discussion on the implications and recommendations of this study based on the findings of this empirical study. Theory implications will be discussed first, followed by methodological implications, and then finally practitioner's implications and proposed recommendations will be offered.

### **5.6.1 Theoretical implications**

This study adds knowledge to the existing body of literature on informal sector entrepreneurial activities or informal business ownership, the informal sector and firm performance. This study's aim was to explore informal sector entrepreneurial activities with the hope of recommending ways in which the sector can be enhanced. This study investigated the relationship between informal sector entrepreneurial activity and firm performance in the Durban Metropolitan area - South Africa, by this, the study provides information on the general outlook of informal sector entrepreneurial activities in South Africa's urban areas.

The informal sector is recognised as a major driver of a country's economy (Ojo *et al.* 2013; Alemu 2015; Nkosi *et al.* 2015). This study explored informal sector entrepreneurial activities, by exploring the determinants of entrepreneurship and how they influence firm performance. This exploration provided empirical knowledge on how an entrepreneurial culture, access to finance, government and incubator support, and entrepreneurial skills/ education affect firm performance, and the economy.

The results of this study reveal that an entrepreneurial culture predict both objective and subjective firm performance. This result ascertains the argument that a culture of entrepreneurship is vital for firm success (Cornwall 2011; Radipere 2014; Otache and Mahmood 2015). This study went further to ascertain the importance of business education/ skills in running a firm. This study established that business education predict firm performance as found by other scholars (Maritz 2013; Leiva *et al.* 2014; Nkosi *et al.* 2015,). Though many scholars provide empirical evidence on the relationship between entrepreneurial education and firm performance, very few have tested the relationship in an informal setting, a quality that sets this study apart from other studies. From the findings of this study it can be concluded that just as in formal firms, entrepreneurial education has a positive relationship with firm performance in informal firms.

This study contributes to literature on how access to finance effect firm performance. The results of this study show access to finance does not predict firm performance. The findings of this study contradict the findings outlined in literature. This study is one of the few studies that has found access to finance to have a non-significant relationship with firm performance. On the impact of government support on firm performance, this study found government and incubator predict objective firm performance, thus, supporting existing literature. Furthermore, this study outline that there is a non-significant relationship between government and incubator support and firm performance. By these findings, this study presents a new/ unpopular facet on the relationship between government support and firm performance.

This study in general gives an outlay of informal sector firms in third world countries. Evidence in this study support existing literature, that outline that the informal sector offers solutions to a nation's employment problems (Scarborough 2011; Webb et al. 2013). Most participants of this study are in the working age population, 92.76% of participants were aged between 20 and 50 years.

### **5.6.2 Methodological Implications**

This study was descriptive and quantitative in nature. The study falls under fundamental research because it explored informal sector entrepreneurial

activities/ business ownership with the hope of recommending ways in which the sector can be enhanced. The nature of this study enabled the researcher to give an account of the informal sector setting in the Durban Metropolitan area as it was at the time of the study (Kaliski 2007). This study was quantitative in nature, thereby enabling the study's results to be statistically analysed for interpretation, and to enable the results for this study to be generalised to represent informal firms in Durban, South Africa and informal firms in 3<sup>rd</sup> world countries.

### **5.6.3 Practitioner Implications**

The study provide evidence that the informal sector contributes to the economy of a nation, particularly, in providing employment. The investigation conducted besides revealing the majority of participants being in the working age population it also revealed that one can earn decent income from informal sector activities. With these findings the researcher believes the informal sector can be used as a starting place for prospective entrepreneurs. Furthermore, though literature characterises informal sector firms (SMMEs) as stagnant, poor performing and prone to failure (Hutchinson 2013, Lekhanya 2015), the fact that this study found the average age of firms operating in the informal sector to be above two years old, gives hope and time for intervention measures that improve firm performance to be adopted.



This study's results show that as firm owners increasingly adopt an entrepreneurial culture, their firm performance also increases. For informal sector firms or entrepreneurial firms to flourish, South Africa as a nation should actively adopt an entrepreneurial culture. All societal establishments have roles to play in improving the entrepreneurial culture of South African citizens and firms. Parents should encourage and mould their children to be independent, proactive, and risk takers. Schools should educate and equip students with knowledge and skills that will endow them to follow an entrepreneurship career path. The society should reward entrepreneurial initiatives and the government should fashion policies that are enabling to entrepreneurs.

Furthermore, the results of this study outline that for entrepreneurial activities to flourish, firm managers and owners should possess business education/ entrepreneurial skills. Firm owners/ managers are advised to pursue entrepreneurial/ business education for them to effectively manage their firms. It is advisable for managers/ owners of informal firms to attend business seminars, workshops and conferences to learn about business/ entrepreneurship, and read books about business for them to improve their knowledge about business. Considering that most participants who took part in this study are educated beyond secondary school, the education system should adapt by including business and entrepreneurial subjects in

their school curriculum so as to equip students with entrepreneurial skills early in life.

Though, literature highlight access to finance as an important factor for entrepreneurs to flourish, this study found a non-significant relationship between access to finance and firm performance. Taking this study's finding into consideration the researcher advocates that before acquiring or accessing finances firm owners/ managers should first equip themselves with financial management skills. Before getting/ looking for firm funding one should know how to manage those funds by acquiring business/ entrepreneurial skills.

For entrepreneurs to flourish, government and incubator's support is key. Though the government is playing its part in assisting SMME's financially and non -financially (Mbatha 2015; Wei and Lui 2015, DSBD 2017), results from this study show government support impact as ineffective. A limited number of firms that took part in this study have benefited from government support initiatives/ programmes. The government should improve on how it delivers its services, particularly, the ways it disseminates information about its programmes to the public. The more people know of the government support services available to them, the more people will benefit from these support services, in turn improving the economy. Prospective

and existing firm owners/ managers should also put an effort to search for information on matters that may benefit them and their businesses.

## **5.7 LIMITATIONS**

The following were found to be the limitations of this study:

- The research population of this study was limited to a certain location of the city. The data collected in this study was from a single location in the city thereby limiting the generalisation of this study's findings. Collecting data from multiple locations would have improved the generalisation reliability of the study.
- This study bases its results and conclusions from self-reported data. The data used for this study was obtained from people and considering that the study tapped into people's ways of living (there businesses and finances), there is a possibility that some people exaggerated experiences/ responses, and the selective tendency to filter what they share was in play during the survey.
- The study's focus topic was broad. Due to limited literature on the research topic, "informal sector entrepreneurial activity", the study analysed several variables, whereas, if one variable was investigated the depth of the study would have been deep. Furthermore, the research separated firm performance into objective and subjective performance which very few prior studies have done.

- For this study a questionnaire with close ended questions was used as a data collection instrument which to some extent limit/ directs respondent's responses. If open ended questions were included in the questionnaire more information from respondents would have been gathered on the study's topic.
- Data for this study was collected at a single point in time which does not take into consideration the maturational effect problem.

## **5.8 FUTURE RESEARCH**

Future studies should counter the limitations of this current study. The current study had a population sample drawn from one particular location, a similar study that would draw its population from multiple locations be it locally, nationally or regionally is bound to produce more valid and reliable results.

Instead of focusing on a broad topic like entrepreneurial activity or firm performance and analysing multiple variables (an entrepreneurial culture, government support, entrepreneurial education, access to finance), future research could conduct an analysis on one or two variables. This would produce in-depth information on the variable/ variables under analysis.

The study used a closed ended questionnaire as a data collection instrument. If in the future a similar study would be conducted allowing respondents to freely give their opinions on the study's subject matter interesting results for comparative purposes would be obtained.

This study only limited its analysis on four determinants of entrepreneurships (an entrepreneurial culture, government support, entrepreneurial education, access to finance) whereas, they are other determinants that were not explored in this study (economic conditions, institutional technological advancements and level of education). Future studies could explore these other determinants of entrepreneurship.

## **5.9 CONCLUSION**

The aim of this study was to explore informal sector entrepreneurial activities in the Durban Metropolitan area with the hope of recommending ways in which the sector can be enhanced. An investigation was conducted and the findings from the investigation highlighted the level of informal sector entrepreneurial activities within the Durban Metropolitan area. Furthermore, the study's results outlined the extent to which culture of entrepreneurship, access to finance, government and incubator support, and entrepreneurial education/skills predict firm financial and subjective performance. From the study's findings, discussions were carried out and recommendations were drawn.

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# ANNEXURES

## Appendix A: Letter of Information



### LETTER OF INFORMATION

**Title of the Research Study:** *A Study measuring the relationship between informal sector entrepreneurial activity and firm performance*

**Researcher:** Tinashe R Napwanya,

**Supervisor:** Dr. W, T Chinyamurindi

**Brief Introduction and Purpose of the Study:**

The informal sector is one of the major drivers of the country's economy and of late it hadn't been performing to its full potential. Entrepreneurship which is the major segment of the informal sector is not flourishing as it is expected to. This study seeks to explore informal sector entrepreneurial activities/ business ownership with the hope of recommending ways in which they can be enhanced. This study aims to outline major obstacles entrepreneurs face when starting and operating their informal businesses, identify measures in place to promote the establishment and growth of informal entrepreneurial ventures, highlight some of the successful practices and business strategies informal sector entrepreneurs employ in their operations and ascertain the relationship between factors such as culture of entrepreneurship; access to finance, government support and entrepreneurial education/ skills on firm performance.

**Outline of the Procedures:**

Participants are to fill in questionnaires. This questionnaire will take approximately 10 – 20 minutes to complete. The completed questionnaires will be returned to the researcher for data analysis and interpretation.

**Risks or Discomforts to the Participant:**

There are no foreseeable risks or discomforts to participants.

**Benefits:**



**To the participant:** this study will provide/ share strategies and practices that other informal entrepreneurs are using to make it in their business environment. It will also highlight hindrances informal entrepreneurs face in their operations.

**To the researcher:** this study is the key for study completion

**Reason/s why the Participant May Be Withdrawn from the Study:**

Participation in this study is voluntary and participants can choose to withdraw from the study at any stage. There will be no consequences for the participant should they choose to withdraw.

**Remuneration:**

Participants will not receive any remuneration for participating in this study.

**Costs of the Study:**

No costs will be incurred for participating in this study.

**Confidentiality:**

The researcher will ensure the anonymity of participants during and after the study. Participant's names will not be collected for this study. All data extracts will be quoted in the study as entirely anonymous.

**Persons to Contact in the Event of Any Problems or Queries:**

<b>Researcher:</b> Tinashe Napwanya	<b>Supervisor:</b> Dr Chinyamurindi	<b>DVC:</b> Prof F. Otieno
<b>Cell:</b> 073 6611 476	<b>Cell:</b> 0818581494	<b>Tel:</b> 031 373 2382
<b>Email:</b> 21143355@dut4life.ac.za	<b>Email:</b> <a href="mailto:WChinyamurindi@ufh.ac.za">WChinyamurindi@ufh.ac.za</a>	<b>Email:</b> dvctip@dut.ac.za.

## Appendix B: Consent letter



### CONSENT FORM

#### Statement of Agreement to Participate in the Research Study:

**Title or research:** A Study measuring the relationship between informal sector entrepreneurial activity and firm performance

**Name of Researcher:** Tinashe R Napwanyana

- I hereby confirm that I have been informed about the nature, conduct, benefits and risks of this study.
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my demographics and opinions, will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

-----  
**Participant's Signature**

-----  
**Date**

-----  
**Time**

I, \_\_\_\_\_ (name of researcher) herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

Tinashe R Napwanyana  
**Researcher**

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**Signature**

## Appendix C: Questionnaire

**A study measuring the relationship between informal sector entrepreneurial activity and firm performance.**

1. Gender:	Male	Female			
2. Ethnic group	Black (African)	Coloured	White	Indian	
3. Age?	Below 20	21-30	31-40	41-50	Above 50
4. Level of education	Below Matric	Matric	Certificate	Diploma/degree	Post Grad
5. Age of business	Below 6 months	7 – 12 months	1-2 years	2-3 years	Above 3 years
6. Number of employees	0	1-3	4-6	7-10	Above 10
7. Turnover per week	Below R100	R101–R299	R301-R500	R501-R1000	Above R1000

8. How would you rank the support on your business from your:	Very weak	1	2	3	4	5	6	7	Very strong
8.1 Family	Very weak	1	2	3	4	5	6	7	Very strong
8.2 Society		1	2	3	4	5	6	7	
8.3 The Government		1	2	3	4	5	6	7	

**Please place an X against your desired response.**

No	Please put a cross in the appropriate block indicating whether you strongly disagree, disagree, neither agree nor disagree, agree or strongly agree with each of the following statements;	Strongly disagree	disagree	Neutral	Agree	Strongly agree
<b><u>Culture of Entrepreneurship</u></b>						
1.	Starting my own firm (business) has always been my dream.	1	2	3	4	5
2.	Society respects people who have their own businesses	1	2	3	4	5
3.	Someone encouraged me to start my own business.	1	2	3	4	5
4.	Growing up I had a family member or close family friend who had their own business	1	2	3	4	5
5.	Where other people see problems, I see opportunities	1	2	3	4	5
<b><u>Access to Finance.</u></b>						
6.	Raising capital to start my business was easy	1	2	3	4	5

7.	The recession had affected my business negatively	1	2	3	4	5
8.	Informal businesses are not getting enough financial support.	1	2	3	4	5
9.	Banks borrowing policies are favourable for informal businesses.	1	2	3	4	5
10	If I could get funding my business would expand	1	2	3	4	5
11	Unemployment drove me to start my own business.	1	2	3	4	5
<b><u>Government &amp; Incubator Support</u></b>						
12	I have a good understanding of the services offered by the government in assisting small businesses.	1	2	3	4	5
13	I have a good understanding of the services offered by the local municipality to small businesses.	1	2	3	4	5
14	My business has benefited from government/ municipality initiatives e.g. BEEE, training; loans	1	2	3	4	5
15	Government/ municipality controls (taxes, regulations...) limit business operations in this area.	1	2	3	4	5
16	Enough training programmes are being offered to assist us in running our businesses.	1	2	3	4	5
17	Funding avenues are readily available for our business needs.	1	2	3	4	5
<b><u>Entrepreneurial Education/ Skills</u></b>						
18	My previous education/ skills helped me in setting up this business.	1	2	3	4	5
19	Much of the things about this business I have learned from experience.	1	2	3	4	5
20	If only I could get an opportunity to attend business training programmes my business will flourish.	1	2	3	4	5
21	The key to making it in this business is investing in entrepreneurial / business education.	1	2	3	4	5
22	Business knowledge/ skills are crucial to the survival and growth of informal businesses.	1	2	3	4	5

<b>For each of the statements below, please mark with an X the number that best describes how your firm performs compared to others in the informal sector.</b>		<b>Weaker</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>stronger</b>
<b><u>Objective (Financial) Measures</u></b>								
23.	Revenue – this refers to the amount of money your firm receives.	<b>weaker</b>	1	2	3	4	5	<b>stronger</b>
24.	Net Income - this refers to your firm's total earnings (or profit).		1	2	3	4	5	
25.	Cash flow – this refers to the total amount of money that moves into and out of your business		1	2	3	4	5	
26.	Return on Equity – the percentage of net income (profit) that is return to owners		1	2	3	4	5	

27.	Return on Assets – this refers to how profitable your assets are in generating returns (money)		1	2	3	4	5	
28.	Return on invested capital – how well is your firm using its money to generate returns (more money)		1	2	3	4	5	
29.	Total Debt to Equity – this refers to the proportion of borrowed money that is used to finance your firm		1	2	3	4	5	
30.	Long-term Debt to Equity – this refers to the proportion of borrowed money that should be paid back after a year that is used to finance your firm		1	2	3	4	5	

	<b>For each of the statements below, please mark with an X the number that best describes how your firm performs compared to others in the informal sector.</b>	<b>weaker</b>	1	2	3	4	5	<b>stronger</b>
	<b><u>Subjective (Non- financial) Measures</u></b>							
31.	Market share – this refers to your firms portion of sales out of the total sales of the industry		1	2	3	4	5	
32.	Capacity utilisation - this refers to the rate at which potential output levels are being met or used		1	2	3	4	5	
33.	Product quality – this refers to your product/ service’s ability to fulfil customers’ needs and expectations		1	2	3	4	5	
34.	On time delivery of products or services – this refers to the firm's ability to deliver products/ services within the period of time promised/ satisfactory to a customer.	<b>weaker</b>	1	2	3	4	5	<b>stronger</b>
35.	Customer satisfaction – this refers to if your firm’s products or services meet/ surpass the needs of your customers		1	2	3	4	5	
36.	Customer retention – this refers to how loyal customers are to your firm		1	2	3	4	5	
37.	Employee satisfaction – the extent to which workers are happy with their jobs and work environment		1	2	3	4	5	
38.	Employee turnover – the number of workers who leave your firm and are replaced by new workers.		1	2	3	4	5	

Thank you for completing the questionnaire